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Financial reports and audited financial statements and reports of the Board of Auditors

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly a letter dated 1 July 2005 (see annex) from the Chairman of the Board of Auditors transmitting the report of the Board on implementation of its recommendations relating to the biennium 2002-2003, submitted in accordance with General Assembly resolution 52/212 B of 31 March 1998 and paragraph 9 of General Assembly resolution 58/249 A of 23 December 2003.

* A/60/50 and Corr.1.

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Annex

Letter of transmittal

1 July 2005

I have the honour to transmit to you the report of the Board of Auditors on implementation of its recommendations relating to the biennium 2002-2003, in accordance with paragraph 5 of General Assembly resolution 52/212 B of 31 March 1998.

(*Signed*) Guillermo **Carague**
Chairman, Philippine Commission on Audit
and Chairman, United Nations Board of Auditors

The President of the General Assembly of the United Nations
New York

Report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2002-2003

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I. Introduction

1. In resolution 52/212 B of 31 March 1998, the General Assembly emphasized that primary managerial responsibility and accountability for the implementation of the recommendations of the Board of Auditors should remain with department heads and programme managers. In the same resolution, the General Assembly endorsed the proposals of the Board of Auditors for improving the implementation of the recommendations approved by the Assembly (see para. 2 below), subject to the provision contained in the resolution. Although further improvement could be made, the Administration has in general taken steps to address the following, in line with the proposals of the Board transmitted to the General Assembly in a note by the Secretary-General (A/52/753):

(a) Need to specify timetables for the implementation of recommendations;

(b) Disclosure of the office holders to be held accountable;

(c) Establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be either in the form of a special committee comprising senior officials or of a focal point for audit and oversight matters.

2. The present consolidated report, up-to-date as at 31 May 2005, relates to recommendations made by the Board of Auditors with respect to accounts for the biennium 2002-2003 and covers 15 organizations on which the Board reports on a biennial basis. Those activities on which reports of the Board of Auditors are submitted annually (i.e., United Nations peacekeeping operations and the voluntary funds administered by the Office of the United Nations High Commissioner for Refugees (UNHCR)) are not included in the present report but are covered, as before, in an annex to the respective reports of the Board of Auditors to the General Assembly. The present report addresses paragraph 3 of General Assembly resolution 59/264 A of 23 December 2004, regarding the United Nations Office for Project Services (UNOPS).

3. The present report also addresses (a) recommendations which, according to the Administration, have been implemented but are subject to validation by the Board in its next scheduled audits; (b) those which are under implementation; (c) those which have not been implemented; and (d) those which have been overtaken by events and therefore cannot be implemented. Accordingly, recommendations which have been implemented, as confirmed by the Board, are not mentioned in the present report although they are accounted for in table 1 below. Details of recommendations considered to be under implementation are provided in the report, and a distinction is made between recommendations for which action by the Administration has been validated by the Board and those for which action has not yet been validated.

Table 1
Status of implementation of recommendations of the Board of Auditors for the biennium 2002-2003

	Organization	Number of recommendations in report, 2002-2003	Recommendation fully implemented[a]		Recommendations under implementation		Recommendations overtaken by events		Recommendations not implemented	
			Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
1	United Nations	68	24	35	44	65	—	—	—	—
2	International Trade Centre UNCTAD/WTO	10	4	40	4	40	—	—	2	20
3	United Nations University	26	9	35	16	61	—	—	1	4
4	United Nations Development Programme	79	40	51	38	48	—	—	1	1
5	United Nations Children's Fund	56	25	45	27	48	—	—	4	7
6	United Nations Relief and Works Agency for Palestine Refugees in the Near East	44	20	45	13	30	—	—	11	25
7	United Nations Institute for Training and Research	15	1	6	7	47	—	—	7	47
8	United Nations Environment Programme	13	10	77	2	15	—	—	1	8
9	United Nations Population Fund	57	38	67	17	30	—	—	2	3
10	United Nations Human Settlements Programme (UN-Habitat)	14	6	43	8	57	—	—	—	—
11	United Nations Office on Drugs and Crime	17	14	82	3	18	—	—	—	—
12	United Nations Office for Project Services	39	11	28	21	54	—	—	7	18
13	International Criminal Tribunal for Rwanda	26	9	35	16	61	—	—	1	4
14	International Tribunal for the Former Yugoslavia	22	17	77	4	18	—	—	1	5
15	United Nations Joint Staff Pension Fund[b]	23	7	30	10	44	—	—	6	26
	Total	**509**	**235**	**46**	**230**	**45**	—	—	**44**	**9**
	2000-2001 (percentage)[c]	100		34		58		1		7
	1998-1999 (percentage)[d]	100		62		35		2		1
16	United Nations Compensation Commission[e]	20	3	15	9	45	—	—	8	40

[a] Includes recommendations considered implemented by the Administration but not yet validated by the Board.
[b] Includes 4 recommendations, 3 under implementation and 1 not implemented, which are the responsibility of the United Nations Secretariat.
[c] For the biennium, 335 recommendations were made.
[d] For the biennium, 208 recommendations were made.
[e] The implementation of recommendations by the United Nations Compensation Commission is reviewed in a separate report.

II. Presentation of the reports on implementation

4. In the past, three reports on the implementation of the recommendations of the Board were submitted to the General Assembly: two by the Secretary-General (concerning the United Nations Secretariat, funds and programmes) and one by the Board. On the recommendation of the Board, the General Assembly, in its resolution 58/249 A of 23 December 2003, agreed to the consolidation of the reports of the Secretary-General in a single report.

III. General comments by the Board of Auditors

5. The General Assembly, by paragraph 12 of its resolution 59/272 of 23 December 2004, reaffirmed the importance of effective coordination, in the implementation of their respective mandates, between the Joint Inspection Unit, the Board of Auditors and the Office of Internal Oversight Services, in order to maximize the use of resources and share experiences, knowledge, best practices and lessons learned. The Board is glad to report that, in the matter of implementation of recommendations and in other areas, synergy has been increasingly provided through references by the Joint Inspection Unit, the Office of Internal Oversight Services and other internal audit services to the implementation — or lack thereof — of the Board's recommendations. The Board has, likewise, increasingly referred to the recommendations of the Unit and the Office in the reports concerned.

IV. Status of implementation of the recommendations of the Board of Auditors

6. The number of recommendations made by the Board has increased over the past three bienniums, from 208 for 1998-1999, to 335 for 2000-2001 and to 509 for 2002-2003, as shown in table 2 below.

Table 2
Comparative analysis of implementation of recommendations of the Board of Auditors for the bienniums 1998-1999, 2000-2001 and 2002-2003

	1998-1999		*2000-2001*		*2002-2003*	
Recommendations	*Number*	*Percentage*	*Number*	*Percentage*	*Number*	*Percentage*
Implemented	130	62	115	34	235	46
Under implementation	72	35	195	58	230	45
Not implemented	1	1	22	7	44	9
Overtaken by events	5	2	3	1	—	—
Total	**208**	**100**	**335**	**100**	**509**	**100**

7. The increase in the number of recommendations may largely explain why, of the 509 made in respect of the 15 organizations covered in the present report, 235 (46 per cent) have been fully implemented by 31 May 2005, while 230 (45 per cent) are under implementation and 44 (9 per cent) have not been implemented at all. Part

of the increase is attributable to the breaking down of previously multi-component recommendations into single-issue recommendations in order to facilitate their computerized follow-up. However, other factors, such as wider audits of information and communication technology, have also contributed to the increase. The Board recognizes that some recommendations may require several years to implement.

8. Rates of implementation of recommendations by the individual organizations are set out in table 1 above. A comparison with the biennium 2000-2001 is shown in table 3.

9. The Board is pleased to note that the overall percentage of implementation of 34 per cent in the biennium 2000-2001 has increased to 46 per cent in the biennium 2002-2003. However, the percentage of recommendations not implemented has increased from 7 per cent to 9 per cent. The Board encourages organizations which have shown a decrease in the level of implementation to intensify their efforts to ensure the timely implementation of recommendations.

A. United Nations

10. Of the 68 recommendations made by the Board of Auditors with respect to the accounts of the United Nations for the biennium 2002-2003,[1] the United Nations has implemented 24 (35 per cent), while 44 (65 per cent) are under implementation.

1. Recommendations considered implemented but not yet validated by the Board

11. **In paragraph 39** of the report of the Board, the Administration agreed with the Board's recommendation that it (a) enforce compliance with the directives on the recovery of travel advances of staff members, and (b) enhance existing processes for the payment of salary in order to prevent overpayments.

12. **Comment by the Administration.** Additional steps have been taken by the Accounts Division, in conjunction with the executive offices, to systemize recovery. With the implementation of Release 1 of the Integrated Management Information System (IMIS), all peacekeeping missions enter their personnel claims, such as separations or leave without pay, directly into IMIS, with the result that IMIS records are updated in a more timely manner and salary overpayments in such cases are prevented.

13. **In paragraph 86** of its report, the Board recommended that the Administration finalize, and share with its funds and programmes, the planned common format for information and communication technology (ICT) strategy documents, covering the main issues, key mission objectives, the contribution of each project to these objectives, with a quantitative evaluation of costs and benefits, a strengths, weaknesses, opportunities and threats analysis, a risk analysis and a discussion of the factors that would determine success or failure.

14. **Comment by the Administration.** The United Nations Secretariat has explicitly addressed the alignment of ICT projects with the core missions and has adopted a standard methodology, the high-level business case, for justifying and approving ICT initiatives.

[1] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. I, chap. II.

Table 3
Comparative analysis of rates of implementation of recommendations of the Board of Auditors for the bienniums 2000-2001 and 2002-2003
(In percentages)

	Recommendations implemented		*Recommendations under implementation*		*Recommendations overtaken by events*		*Recommendations not implemented*	
Organization	*2000-2001*	*2002-2003*	*2000-2001*	*2002-2003*	*2000-2001*	*2002-2003*	*2000-2001*	*2002-2003*
United Nations	30	35	67	65	—	—	6	—
International Trade Centre UNCTAD/WTO	60	40	20	40	—	—	20	20
United Nations University	29	35	71	61	—	—	—	4
United Nations Development Programme	52	51	43	48	—	—	4	1
United Nations Children's Fund	24	45	76	48	—	—	—	7
United Nations Relief and Works Agency for Palestine Refugees in the Near East	30	45	59	30	—	—	11	25
United Nations Institute for Training and Research	40	6	40	47	—	—	20	47
United Nations Environment Programme	80	77	20	15	—	—	—	8
United Nations Population Fund	23	67	77	30	—	—	—	3
United Nations Human Settlements Programme (UN-Habitat)	38	43	25	57	38	—	—	—
United Nations Office on Drugs and Crime	21	82	71	18	7	—	—	—
United Nations Office for Project Services	56	28	39	54	—	—	6	18
International Criminal Tribunal for Rwanda	53	35	47	61	—	—	—	4
International Tribunal for the Former Yugoslavia	24	77	59	18	—	—	18	5
United Nations Joint Staff Pension Fund	14	30	52	44	—	—	33	26
Average (percentage)	**34**	**46**	**58**	**45**	**1**	**0**	**7**	**9**

15. **In paragraph 116** of its report, the Board recommended that the Administration (a) ensure that service-level agreements clearly define the roles and responsibilities of third-party service providers and continually satisfy the business requirements, (b) undertake a formal risk-assessment process prior to engaging third-party service providers, (c) regularly assess the performance of service providers vis-à-vis the targets and commitments specified in the service-level

agreements, and (d) ensure compliance with the provisions of the Procurement Manual in re-engaging service providers.

16. **Comment by the Administration.** The Information Technology Services Division and the Procurement Service of the Office of Central Support Services have taken action to ensure that all aspects of agreements with third parties are adequately controlled. Their combined efforts are providing the necessary expertise and competences to address the risks identified by the Board. The Division has redefined the terms of reference of its Information and Communication Technology Service Unit to include responsibilities for quality assurance, continuous improvement and risk management support.

17. **In paragraph 126** of its report, the Board recommended that the Administration provide for appropriate expertise to review and monitor ICT functions.

18. **Comment by the Administration.** Within the constraints brought about by an environment of continuing growth in ICT activities and operating with limited resources, the Administration has addressed this matter by means of staff experts in this field and external contractual assistance. At the same time, the Information Technology Services Division has been developing procedures in accordance with the COBIT (Control Objectives for Information and related Technology) control framework for mapping, monitoring, reviewing and assessing the performance of ICT functions.

19. **In paragraph 139** of the report, the Administration (United Nations Office at Nairobi) agreed to adopt IMIS procedures on the processing of leave benefits to staff members on short-term appointments.

20. **Comment by the Administration.** The United Nations Office at Nairobi has implemented an electronic system (e-leave) which monitors the leave benefits of its staff, including those on short-term appointments.

21. **In paragraph 142** of its report, the Board recommended that the Administration consider a feature in IMIS that allows only duly authorized officials of the Office of Human Resources Management to process an education grant while the previous year's education grant has not yet been closed.

22. **Comment by the Administration.** The Administration considers this recommendation to be fully implemented as only duly authorized human resources officers can approve the settlement of education grants in IMIS.

23. **In paragraph 151** of the report, the United Nations Office at Geneva agreed with the Board's recommendation that it introduce, in its project management, tools for estimating the internal and external human resources required, and that it monitor their use at all stages of a project, with a view to analysing the reasons for departures from a plan and improving the quality of the project management process.

24. **Comment by the Administration.** The IMIS team at the United Nations Office at Geneva adopted a standard project management tool in 2004 and, since then, all of its projects are required to use it for estimating, planning, monitoring, evaluating and coordinating schedules and resource usage.

25. **In paragraph 196** of its report, the Board recommended that the Administration review its system of allocating resources.

26. **Comment by the Administration.** The procedures for the allocation of resources are set out in General Assembly resolution 41/213 of 19 December 1986 and the Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation. Consistent with established practice, heads of departments will be afforded flexibility to allocate 2006-2007 programme budget resources within the programmes, within the overall level of resources approved, so as to ensure the implementation of mandated activities while taking into account developments during the course of the biennium.

27. **In paragraph 204** of its report, the Board recommended that Treasury consider the costs and benefits of adopting a comprehensive cash-flow forecasting system, with a view to further enhancing its portfolio performance.

28. **Comment by the Administration.** Treasury maintains expenditure (primary payroll) forecasts and matched investments when market conditions and cash balances permit. Investment pooling has permitted Treasury to limit very short-term deposits to approximately 20 to 25 per cent of investments, allowing the remainder to be held in marketable fixed-income securities. Treasury is satisfied that the focus on matching the more predictable outflows provides results commensurate with the liquidity needs of the Organization.

29. **The Board will keep this matter under review to assess the adequacy of current treasury forecasting requirements.**

30. **In paragraph 238** of the Board's report, the Economic and Social Commission for Western Asia (ESCWA) agreed with the Board's recommendation that it (a) establish a supplier review committee as required by section 5.03 of the Procurement Manual, and (b) review supplier performance prior to the awarding of contracts to vendors, pursuant to section 5.14 of the Procurement Manual.

31. **Comment by the Administration.** With regard to the establishment of a supplier review committee, it is the position of the Administration that, given the volume of procurement activities at ESCWA and the fact that the procurement team consists of only four staff members, section 5.03 of the Procurement Manual, which applies to offices at which procurement activities are carried out by several procurement sections, cannot be implemented. With respect to supplier performance, ESCWA advises that, in the absence of a post of Supplier Roster Officer, the job description of one staff will include periodical maintenance of the supplier roster and relevant files. In addition, an intern has been requested to assist in reviewing 2004 case files and the supplier roster with a view to ensuring that information is complete.

32. **In paragraph 292** of its report, the Board recommended that the United Nations Interregional Crime and Justice Research Institute (UNICRI) take appropriate measures to fill vacant posts in a timely manner.

33. **Comment by the Administration.** UNICRI filled all vacant posts in 2004.

34. **In paragraph 298** of the report, the United Nations Institute for Disarmament Research (UNIDIR) agreed with the Board's recommendation that it conduct periodic evaluations of projects, and report their status for monitoring purposes.

35. **Comment by the Administration.** UNIDIR has been conducting periodic evaluations of its projects and has been reporting the status for monitoring purposes. It has established new procedures (inter alia, reorganization of the Institute and assignment of a projects and publications manager) and is establishing a new method to track project spending.

36. **In paragraph 330** of its report, the Board recommended that the International Court of Justice further strengthen its administrative processes to ensure compliance with regulations and rules.

37. **Comment by the Administration.** The Court has taken substantive measures to strengthen its administrative processes so as to ensure that it complies with the Financial Regulations and Rules of the United Nations.

38. **In paragraph 334** of its report, the Board recommended that the International Civil Service Commission expedite the filling of vacant posts.

39. **Comment by the Administration.** The Commission has filled every post vacant during the 2002-2003 biennium.

2. Recommendations under implementation, as validated by the Board

40. **In paragraph** 36 of its report, the Board recommended that the Office of Programme Planning, Budget and Accounts, in conjunction with the United Nations Development Programme (UNDP), reconcile the discrepancy of $22.43 million and make necessary adjustments in the accounts to reflect the accurate balance of payables due to funding source in the financial statements.

41. **Comment by the Administration.** Staff members from the Accounts Division, United Nations Secretariat, and the Comptroller's Division at UNDP are working together closely on the reconciling the discrepancy and have so far identified a difference of $15 million in inter-office vouchers, covering the years from 1998 to 2003. UNDP has agreed to record adjustments of $5.5 million.

42. **In paragraph 43** of the report, the Administration agreed with the Board's recommendation that it review accounts payable with abnormal balances to ensure that they are promptly adjusted in the books or recovered if they represent overpayments.

43. **Comment by the Administration.** Action to reclassify some accounts has been taken and reflected in the 2004 financial statements. The procedure for reclassification of abnormal payable balances will continue to be reviewed and improved as required and the results will be reflected in the financial statements as at 31 December 2005.

44. **In paragraph 45** of the report, the Administration agreed with the Board's recommendation that the Office of Programme Planning, Budget and Accounts, in conjunction with offices away from Headquarters, (a) ensure the submission of correct and complete inventory reports in a timely manner, and (b) analyse the non-expendable property still in use but with zero value and, where appropriate, indicate the values based on original records of acquisition, or when such records were not available, based on reasonable estimates.

45. **Comment by the Administration.** The Accounts Division continues to emphasize the need for complete and accurate data submissions in its year-end

instructions. As at 31 December 2004, the physical inventory for non-expendable property of the Office of Programme Planning, Budget and Accounts no longer contained any items of nil value. At the United Nations Office at Geneva, a new instruction (ST/Geneva/OI/176) was published on 28 February 2005. Implementation throughout all Geneva-based entities is planned during the biennium 2006-2007. The physical inventory was conducted at the United Nations Conference on Trade and Development (UNCTAD) in September 2004 and completed in February 2005.

46. **The Board is concerned that no physical inventory has been undertaken or planned at the United Nations Office at Vienna since April 2004. The Board reiterates its recommendation insofar as that Office is concerned.**

47. **In paragraph 47** of its report, the Board recommended that the United Nations review the funding mechanism for end-of-service and post-retirement benefits liabilities.

48. **Comment by the Administration.** A report on the funding of after-service health insurance benefits is being finalized for the consideration of the General Assembly at its sixtieth session.

49. **In paragraph 52** of its report, the Board reiterated its recommendation that the Administration take action to review those trust funds whose purposes had long been attained in order to identify and close those that were inactive and no longer required.

50. **Comment by the Administration.** The review of trust funds is being undertaken and it is expected that there will be a consolidation of some trust funds and the closure of others.

51. **The Board notes that, in the case of the Economic and Social Commission for Asia and the Pacific (ESCAP), there were still 42 completed but financially open projects with a fund balance aggregating $359,723 as at 31 December 2004.**

52. **In paragraph 54** of the report, the Office for the Coordination of Humanitarian Affairs agreed with the Board's recommendation that it identify inactive project balances and transfer them to active projects, after consultation with respective donors.

53. **Comment by the Administration.** The Office for the Coordination of Humanitarian Affairs continues to identify and investigate inactive project balances with a view to transferring them to active projects. Requests for authorization are to be sent to the respective donors by 30 June 2005.

54. **In paragraph 56** of its report, the Board recommended that the Administration ensure that (a) substantive offices (ESCAP) submit progress reports and terminal reports for completed projects in a timely manner, and (b) the Economic Commission for Latin America and the Caribbean (ECLAC) maintain project expenditures within the authorized allotments.

55. **Comment by the Administration.** An online resource guide has replaced the ESCAP extrabudgetary manual, clarifying procedures for the preparation of progress and terminal reports. Progress and terminal reports have been prepared in a timely fashion and the Programme Management Division has followed up with

substantive divisions to ensure the submission of reports. With respect to project expenditures at ECLAC, procedures have been enforced to maintain such expenditures within the authorized allotments. The issue has become a priority concern in financial management, and certifying officers have been instructed to be more diligent in reviewing cash contributions and financial projections.

56. **The Board notes that, as at 30 March 2005, the terminal reports of 34 ESCAP projects with an aggregate budget cost of $986,269 and the progress reports of 2 projects with a budget cost of $4,090,655 had not yet been submitted. The Board reiterates its recommendation insofar as the submission of reports at ESCAP.**

57. **In paragraph 97** of its report, the Board recommended that the Administration establish, as planned, a formal portfolio of information technology assets in line with best ICT industry practices in order to provide a complete view of the ICT initiatives, projects and facilities across all United Nations organizational units.

58. **Comment by the Administration.** This recommendation has been implemented. However, the United Nations System Staff College indicates that it is aware that the United Nations Secretariat has recently established a software applications database (e-Assets) but it is not accessible to the Staff College and its potential usefulness will need to be determined. The Staff College also indicates that it will implement a database for both word-processing and programme applications.

59. **The Board notes that, as at 18 May 2005, the Office for the Coordination of Humanitarian Affairs considered that it also was not participating in the e-Assets system, but the Administration states that the date related to the systems used by the Office are included in the e-Assets database.**

60. **In paragraph 144** of its report, the Board reiterated its recommendations that the Administration implement additional automated controls, such as (a) blocking the entry of a General Service to Professional category promotion if the data indicating that the staff member had passed the examination had not been validated, (b) extending full control over duplicates to all key data entries instead of limiting it to the initial entry, (c) rejecting implausible entries or posting a warning in such cases, and (d) displaying on the monitor information on the most recent successful login upon validation of a valid access.

61. **Comment by the Administration.** The Office of Human Resources Management, in close coordination with the Information Technology Services Division, is reviewing the feasibility of introducing additional automated controls, including those suggested by the Board. For example, action taken in regard to a successful General Service candidate, selected for promotion to the P-2 level will require that the processing of an appointment personnel action include turning on the G-P indicator in the examination field of IMIS. The Office will also explore the possibility of turning on the G-P indicator without the processing of a personnel action and review the additional workload implications by the end of 2005.

62. **In regard to items (b) and (c) of its recommendation, the Board notes that the Office of Human Resources Management had, at the end of May 2005, yet to consult the Information Technology Services Division.**

63. **In paragraph 175** of its report, the Board recommended that the Administration resubmit to the General Assembly its proposal for the establishment of a reserve to cover appropriately additional expenditures related to such factors as exchange rate variations and inflation.

64. **Comment by the Administration.** Implementation of the recommendation is in progress and will be carried out in the context of the proposed programme budget for the biennium 2006-2007.

65. **In paragraph 193** of its report, the Board recommended that the Administration facilitate the issuance of summary reports in a timely manner.

66. **Comment by the Administration.** The Department for General Assembly and Conference Management was making all necessary arrangements to ensure that all summary records of the main part of the fifty-ninth session of the General Assembly would be issued by 31 March 2005.

67. **The Board notes that, as at 12 March 2005, there were still backlogs in the issuance of summary records, ranging from 350 to 690 per language.**

68. **In paragraph 222** of the report, the Administration agreed with the Board's recommendation that it define and regulate requisition amendments at the appropriate stage in the procurement process in order to promote greater efficiency.

69. **Comment by the Administration.** While it would be ideal to receive requisition amendments early in the procurement process, the reality is that requisitioners assert that certain unavoidable circumstances will require that amendments be made when needs change: for example, cancellation of the requirement, an increase or decrease in quality, change of delivery address or date of flight etc. To promote greater efficiency, the Procurement Service will treat amendments on a case-by-case basis, and draw the attention of requisitioners to the Board's recommendation, and provide advice on the impact on delivery and the procurement process. It is anticipated that, with the expected implementation of Mercury, the field procurement management system, at United Nations Headquarters by the end of 2006, all data, especially amendments, will be fully integrated.

70. **In paragraph 224** of its report, the Board recommended that the Administration continue to implement its plan to review the vendor registration programme and initiate a systematic updating of information in order to ensure that relevant and reliable information on the status of registered vendors is maintained.

71. **Comment by the Administration.** The Procurement Service engaged in a management review of vendor registration in 2004 in cooperation with the United Nations Office for Project Services (UNOPS) and the Inter-Agency Procurement Services Office of UNDP, and has joined the United Nations Global Marketplace, the Internet-based single gateway for vendor registration. Further enhancements are scheduled for implementation by the end of 2005.

72. **In paragraph 254** of its report, the Board recommended that the Administration, under the guidance of the Office of Human Resources Management and with a significant role assigned to the United Nations System Staff College: (a) report on training activities and costs; (b) review management information systems in order to monitor training in a reliable manner; (c) consider sharing a set of similar core indicators across the United Nations common system in order to

facilitate benchmarking in terms of deliverables and costs; (d) review whether the present level of funding for training and the results are consistent with the priority placed on staff development; (e) define or update and disseminate clear training policies and guidelines where this has not been achieved, in line with the organizational learning framework endorsed by the Human Resources Network in July 2003; (f) develop rosters of training providers at the appropriate levels (headquarters, regional, country), to be shared among organizations; (g) develop more formally inter-agency sharing of training knowledge and materials; and (h) improve the evaluation of the results achieved through training so as to ascertain its impact on the efficiency and effectiveness of operations.

73. **Comment by the Administration.** Items (a) and (e) of the recommendations have been fully implemented. In general, the Office of Human Resources Management agrees that organizations of the United Nations common system should continue to strengthen their collaboration in regard to issues related to staff development and training, including the sharing of best practice.

74. **In paragraph 256** of its report, the Board, while recognizing practical difficulties, recommended that the Administration continually assess and monitor strict adherence to the administrative instructions on hiring, remunerating and evaluating the performance of consultants and individual contractors.

75. **Comment by the Administration.** The Office of Human Resources Management continues to monitor strict adherence to the administrative instructions mentioned.

76. **The Board notes that other offices (Department for General Assembly and Conference Management, Department of Political Affairs and ECLAC) have not strictly adhered to the administrative instructions. The Board therefore reiterates its recommendation.**

3. Recommendations under implementation but not yet validated by the Board

77. **In paragraph 89** of its report, the Board recommended that the United Nations adopt and implement a uniform methodology for determining the total cost of information and communication technology with a view to improving the decision-making process on such issues as outsourcing and cost recovery.

78. **Comment by the Administration.** The total cost of ICT was taken into account in the preparation of the programme budgets for the bienniums 2002-2003[2] and 2004-2005.[3] In addition, the Secretariat expects to benefit from the United Nations system-wide review which has been prioritized by the ICT Network of the Chief Executives Board for Coordination (CEB). Within the set of strategic business cases of the system-wide ICT strategy, the ICT Network has recently identified a business case preparation and costing initiative which will further standardize the costing methodology. The expected date of completion is the third quarter of 2006.

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[2] A/56/6 (Introduction), para. 70, table, "Resources allocated to information technology". For the final text, see *Official Records of the General Assembly, Fifty-sixth Session, Supplement No. 6.*

[3] A/58/6 (Introduction), paras. 24-32. For the final text, see *Official Records of the General Assembly, Fifty-eighth Session, Supplement No.6.*

79. **In paragraph 95** of its report, the Board recommended that the United Nations review the delegations of authority, methodology and monitoring for the management of computerized data and information.

80. **Comment by the Administration.** The Information Technology Services Division, in line with the referenced COBIT-based methodology, has mapped the ICT line of activities and processes against the five domains of the COBIT governance framework. On the basis of the mapped processes, the Division will develop indicators and parameters for monitoring, self-assessment and management of ICT, to be submitted for review and approval to the ICT Board. The recommendation is expected to be fully implemented by the third quarter of 2006.

81. **In paragraph 99** of its report, the Board recommended that the Administration ascertain that training programmes on the development and implementation of an ICT strategy were available and coordinated.

82. **Comment by the Administration.** The Information Technology Services Division has been working with some departments on the development of their ICT strategy. Full implementation is expected during the first quarter of 2006.

83. **In paragraph 102** of its report, the Board recommended that the Administration continue to take appropriate steps to adopt common ICT standards and best practices, including documenting "lessons learned" exercises.

84. **Comment by the Administration.** The standards task force of the ICT Board continues to address ICT standards throughout the Secretariat. Implementation is expected to be completed in the third quarter of 2005.

85. **In paragraph 120** of its report, the Board recommended that the Administration (a) promptly issue a comprehensive policy on ICT security, business contingency and emergency preparedness, and (b) update the corresponding user manual for back-up services.

86. **Comment by the Administration.** The ICT security, business continuity and emergency preparedness policy has been reviewed by an independent external consulting firm, in the context of the ISO 17799 compliance project which is in progress in the Information Technology Services Division.

87. **In paragraph 131** of its report, the Board recommended that the Administration consider instituting improvements in the current functionalities of the travel user session by, inter alia, (a) linking and integrating the travel request to the travel advance, (b) ensuring that travel advances were paid only upon approval of the travel request and travel advance and that any exceptions or overrides were logged, and (c) automating the computation of such travel entitlements, and include a routine that would automatically establish the deadline for the submission of the travel reimbursement claim and the recovery of the travel advance through payroll deduction, in accordance with the requirements of administrative instruction ST/AI/2000/20.

88. **Comment by the Administration.** Changes to the system planned for 2004 have been delayed owing to technical reasons, and are now planned for implementation in 2005. Through the e-payslip functionality, the Administration has implemented measures to inform staff members automatically of forthcoming recoveries.

89. **In paragraph 135** of the report, the Administration agreed with the Board's recommendation that it consider enhancing the journal voucher session when the automation of the closure process was completed and placed in production.

90. **Comment by the Administration.** The Administration will review the functionality of the journal voucher session with respect to completeness of the required elements for coding of income and expense transactions, and consider enhancements. The necessary preparatory steps are well under way. The initial stage of the closure process will be completed by 30 April 2006 in respect of accounts for the 2004-2005 biennium. The next phases will be completed by October 2006 for closing the 2005 peacekeeping fiscal year, by early 2007 for closing annual 2006 accounts, and by early 2008 for the opening balances of the 2006-2007 biennium. Upon completion of this process, the Administration will assess whether additional changes to the journal voucher user session will be required to better facilitate postings.

91. **In paragraph 148** of the report, the Administration agreed with the Board's recommendation that it ensure that the Information Technology Services Division of the Office of Central Support Services and the Office of Programme Planning, Budget and Accounts continuously pursue the automation of the consolidation process in order to ensure the integrity and reliability of financial information and to maximize the benefits derived from the technology available.

92. **Comment by the Administration.** The IMIS Support Unit of the Office of Programme Planning, Budget and Accounts together with the Accounts Division and its Systems Support Section, continues to seek further ways of streamlining and automating the consolidation process. The Information Technology Services Division has also improved scripts used for the extraction and consolidation of data on offices away from Headquarters.

93. **In paragraph 154** of the report, the United Nations Office at Geneva agreed with the Board's recommendation that it (a) establish and document the test framework and results for all ICT projects, and (b) acquire a help desk tool as planned.

94. **Comment by the Administration.** With regard to item (a) of the recommendation, the United Nations Office at Geneva is working closely with United Nations Headquarters on the guidelines established for the preparation of the high-level business case which include detailed and standardized documentation for all substantial ICT projects. With regard to item (b), the United Nations Office at Geneva has implemented a help desk tool in the IMIS and technical help desks, which was developed in-house and has improved the monitoring of calls. The Office is further investigating the implementation of a customer relationship management system which will allow for the tracking and monitoring of all client requests through a central point.

95. **In paragraph 208** of its report, the Board reiterated its recommendation that the United Nations develop suitable data-processing tools for cash management.

96. **Comment by the Administration.** Treasury is in the process of implementing a cash management tool which will facilitate the forecasting of cash outflows in an accurate and timely manner.

97. **In paragraph 211** of its report, the Board recommended that the United Nations (a) review its treasury operations at offices away from Headquarters, and (b) promptly establish formal guidelines, procedures and investment committees in liaison with the concerned funds and programmes.

98. **Comment by the Administration.** Treasury operations at the United Nations Office at Geneva have been further reviewed to identify areas for improvement. An overall review of treasury operations will involve other offices away from Headquarters and cover not only investment matters but all other aspects of cash management. It is expected that this review will lead to the adoption of revised formal guidelines and procedures which will govern the treasury operations at offices away from Headquarters. Once this stage has been reached, coordination would be initiated with funds and programmes to ascertain the areas in which synergies can be identified as a basis for future cooperation among the United Nations Secretariat, funds and programmes. The Administration expects to report to the General Assembly on the progress made in regard to these activities at the main part of its sixty-first session. The guiding principles and policies governing United Nations are applicable to all United Nations offices holding responsibility for investments.

99. **The Board remains concerned regarding the limited format of the above-mentioned guiding principles.**

100. **In paragraph 214** of its report, the Board recommended that the Administration implement the disclosure procedure for investment losses, as provided for in United Nations financial rule 104.16.

101 **Comment by the Administration.** The Administration is currently considering the issue of reporting of investment losses and any changes required under the relevant financial rules.

102. **In paragraph 236** of its report, the Board recommended that the Economic Commission for Africa request the assistance of the Procurement Division [since renamed Procurement Service] in implementing a code of ethics and the signing of declarations of independence of all staff members involved in procurement.

103. **Comment by the Administration.** The Procurement Service has been working with the Office of Legal Affairs and the Office of Human Resources Management to promulgate ethical guidelines and a Secretary-General's bulletin on rules governing the staff engaged in procurement activities, which include a declaration of ethical responsibilities to be signed by all staff engaged in procurement activities. The documents are being prepared for promulgation by the end of the third quarter of 2005.

104. **In paragraph 241** of its report, the Board recommended that the Administration[4] ensure that concerned entities sign and implement memorandums of understanding on inter-agency services which set out clearly each party's responsibility and accountability.

105. **Comment by the Administration.** The United Nations Office at Vienna and the International Atomic Energy Agency signed an agreement on 10 December 2004. In respect of the United Nations Office at Geneva, the revision of

[4] Here, the United Nations Office at Geneva and the United Nations Office at Vienna.

memorandums of understanding on inter-agency services with United Nations Secretariat entities, United Nations Environment Programme and UNIDIR, and on medical services with various entities, including the World Meteorological Organization and the World Intellectual Property Organization, is targeted for completion before the end of 2005. In respect of United Nations Secretariat entities, the format of the memorandums and the billing methodology are under revision.

106. **In paragraph 254** of its report, the Board recommended that the Administration, under the guidance of the Office of Human Resources Management and with the significance assigned to the United Nations System Staff College:

(a) Report on training activities and costs;

(b) Review management information systems in order to monitor training in a reliable manner;

(c) Consider sharing a set of similar core indicators across the United Nations common system in order to facilitate benchmarking in terms of deliverables and costs;

(d) Review whether the present level of funding for training and the results were consistent with the priority placed on staff development;

(e) Define or update and disseminate clear training policies and guidelines where this had not been achieved, in line with the organizational learning framework endorsed by the Human Resources Network in July 2003;

(f) Develop rosters of training providers at the appropriate levels (headquarter, regional, country), to be shared among organizations;

(g) Develop more formally inter-agency sharing of training knowledge and materials;

(h) Improve the evaluation of the results achieved through training so as to ascertain its impact on the efficiency and effectiveness of operations.

107. **Comment by the Administration.** The Staff College indicated that, in regard to the roster of training providers, it has established and is maintaining a consultant database for system-wide use (http://www.unssc.org/cr), which United Nations Headquarters does not seem to be aware of, since, in its response to the Board, it mentioned that the College could play a role. The Staff College could monitor and evaluate the cost-effectiveness of the e-learning programmes currently offered by United Nations agencies. The College has developed the learning quality and support assurance (LQSA) project and is working with the International Labour Organization and the United Nations High Commissioner for Refugees in this area. Also, it is planning to host an inter-agency consultative meeting of United Nations agencies involved in the evaluation of training activities later in 2005, to examine the option of establishing a clearing house and to facilitate and manage evaluation activities.

108. **In paragraph 263** of its report, the Board recommended that the Office of Internal Oversight Services (a) continue to ensure that the staff were adequately trained, and (b) continue with its plan of implementing online training. The Board also recommended that the Office ensure that it obtained the required resources to effectively perform ICT audits.

109. **Comment by the Administration.** The Office of Internal Oversight Services is of the view that more training can only be undertaken if additional funds are made available. The auditors and staff of the Internal Audit Division participated in various training, workshop and professional activities. In 2004, the Office introduced a Web-based learning page, where 39 of its staff enrolled in 104 online courses provided by the Institute of Internal Auditors, which is among the other research links that can be accessed on the Web. The Office has a dedicated learning unit and a learning focal point, and further improvements to the learning programme have been made in accordance with needs and resource requirements. Implementation is pending approval of the two additional information technology auditor posts requested by the Office, and the preparation of an audit strategy for information technology. The Office expects full implementation at the end of 2005.

110. **The Board notes that United Nations Headquarters did not seem to be aware of the existence of the consultant database established by the Staff College (see para. 109 above).**

111. **In paragraph 267** of its report, the Board recommended that the Office of Internal Oversight Services address the causes of delays in reporting its audit results in order to ensure the issuance of reports in a timely manner.

112. **Comment by the Administration.** The Office of Internal Oversight Services has analysed the factors contributing to delays in the issuance of internal audit reports and measures to improve the timeliness of the reports are under way. The Office expects full implementation at the end of 2005.

113. **In paragraph 284** of its report, while recognizing that the Administration had instituted several measures to address mentioned deficiencies, such as incomplete inventory reports and the absence of barcode labels, the Board recommended that the Administration continue to introduce improvements in the asset management system.

114. **Comment by the Administration.** Property management continues to be an area of paramount importance. Following the successful deployment of the global automated system for inventory management at field missions, the Logistics Support Division of the Department of Peacekeeping Operations is working closely with field mission managers to strengthen and enhance the overall asset management and reporting system. The collective efforts of the Administration have resulted in further improvements in custody of and control over non-expendable equipment. The Administration will continue to monitor closely the management of non-expendable equipment at field missions. The property management manual is in the final stage of review and approval, and is scheduled to be completed by 30 September 2005.

115. **In paragraph 287** of its report, UNICRI agreed with the Board's recommendations that it assess project performance and establish guidelines and indicators accordingly.

116. **Comment by the Administration.** In 2004, UNICRI improved its reporting on project performance and monitored the implementation and achievements of its main programmes. In 2005, it will endeavour to comply with the provisions of Secretary-General's bulletin ST/SGB/2000/8 and consider developing its monitoring and evaluation tools.

117. **In paragraph 290** of its report, the Board reiterated its recommendation that the United Nations Secretariat issue a delegation of authority to the Director of UNICRI.

118. **Comment by the Administration.** UNICRI and the United Nations Office at Vienna have been cooperating on a submission to the United Nations Comptroller in this regard, a draft of which was under way by May 2005.

119. **In paragraph 306** of its report, the Board recommended that the United Nations Research Institute for Social Development consult with United Nations management and other research institutes to find appropriate contractual solutions for multi-year assignments.

120. **Comment by the Administration.** The Administration has held discussions with various other institutions concerning the Board's recommendation. The United Nations Research Institute for Social Development and UNIDIR are preparing a proposal for change, outlining the specific problems of research institutions with respect to short-term contract flexibility or research cycles. As several institutions are involved, and given some differences in their structures, coordination of the initiatives is taking longer than expected. However, it is hoped that a proposal will be submitted by the end of September 2005.

121. **In paragraph 311** of its report, the United Nations Research Institute for Social Development agreed with the Board's recommendation that it formalize its publication dissemination and pricing policy, and streamline its inventory.

122. **Comment by the Administration.** A dissemination strategy has been developed to save costs and maximize effectiveness. Among other measures, pricing has been formalized in coordination with the sales and marketing sections in Geneva and New York. Streamlining of the inventory process is in progress and the computer software will soon be installed by the ICT service. Training will be provided by the ICT service, and all relevant data will then be entered by the staff responsible for dissemination. It is anticipated that the system will be fully operational during the third quarter of 2005.

123. **In paragraph 315** of its report, the Board recommended that the United Nations System Staff College (a) further improve its activity reporting system, and (b) fully utilize its income to ensure the achievement of its objectives.

124. **Comment by the Administration.** The Staff College completed a College-wide Project Management Information System (PMIS) in 2004, with links to messages in development (MIDS) and the College website. Research has been carried out on various systems for strengthening customer relationship management, and a needs assessment survey of the major United Nations organizations was conducted in November 2004; a customer relationship management system is expected to be operational at the College by the end of June 2005.

125. **In paragraph 318** of its report, the Board recommended that UNCTAD consider (a) documenting a multi-year funding strategy, in cooperation with donors, and (b) submitting a yearly technical cooperation plan to its governing bodies.

126. **Comment by the Administration.** With regard to item (a) of the recommendation, the Secretary-General of UNCTAD has submitted to its governing bodies, the Working Party and the Trade Development Board, a report containing a review of the technical cooperation activities of UNCTAD and proposals for the

medium-term plan, programme budget and the multi-year funding strategy. With regard to item (b), the Trade and Development Board has decided to discontinue the submission of a yearly indicative plan concerning technical cooperation activities. The recommendation of the auditors will be brought to the attention of the Trade and Development Board at its next session in 2005.

127. **In paragraph 321** of its report, UNCTAD agreed with the Board's recommendation that it improve benchmarks and indicators of achievement, with a view to measuring the performance of its activities funded under section 23 of the United Nations regular budget.

128. **Comment by the Administration.** Instructions have been issued to the directors and programme managers responsible for the implementation of the programmes funded under section 23 of the budget in the context of the preparation of the proposed programme budget for the biennium 2006-2007.

129. **In paragraph 324** of its report, while recognizing the constraints of programme implementation and the need for flexibility in the administration of programme delivery, the Board recommended that the UNCTAD secretariat comply with the Staff Rules and Regulations of the United Nations on the scope of the tasks entrusted to 200-series staff members. The Board also recommended that the UNCTAD secretariat review the geographical and gender balance of its staff, and consider introducing systematically competitive selection for its staff under the 200 series of the Staff Rules.

130. **Comment by the Administration.** Interim procedures have been followed in regard to the competitive selection of staff under the 200 series, specifically as concerns the appointment of staff at the Local level. The UNCTAD secretariat has put in place procedures that are in compliance with the Staff Rules and Regulations. The issue of geographical and gender balance for staff appointed under the 200 series is under constant review at UNCTAD.

131. **In paragraph 326** of its report, the Board recommended that UNCTAD review its policy and funding on financing the travel of experts from developing countries in order to align goals and means.

132. **Comment by the Administration.** The matter was referred to the governing bodies of UNCTAD: the Trade and Development Board and the Working Party. It is understood that member States will consider the issue in the context of their review of the proposed programme budget for the biennium 2006-2007, with a view to adopting a mandate which would then be submitted to the Advisory Committee on Administrative and Budgetary Questions for consideration and to the General Assembly for approval.

133. **In paragraph 332** of its report, the Board recommended that the International Civil Service Commission (ICSC) maximize the use of the Integrated Monitoring and Documentation and Information System (IMDIS) in its programme performance monitoring system.

134. **Comment by the Administration.** ICSC has held consultations with the staff of IMDIS and the Budget Division with a view to modifying reporting parameters which do not permit meaningful reporting. ICSC expects that this issue will be resolved for the biennium 2006-2007 and could maximize the use of IMDIS.

135. **In paragraph 349** of its report, the Board recommended that the Administration (a) implement a comprehensive and well-communicated corruption and fraud-prevention plan in the United Nations system, (b) establish a corruption and fraud-prevention committee that would serve as an effective framework and coordination point for a United Nations system corruption and fraud-prevention mechanism, (c) conduct ethics, corruption and fraud-awareness training sessions and workshops among managers, international and local employees and other stakeholders, (d) develop appropriate resolution mechanisms for reported and detected incidents and allegations of corruption and fraud, and (e) review the investigation processes at offices away from Headquarters.

136. **Comment by the Administration.** The recommendation of the Board was brought to the attention of the High-level Committee on Management of CEB at its meeting in Geneva on 4 and 5 April 2005, when it was noted that the Finance and Budget (FB) Network had already established a working group on the subject of fraud prevention, led by the Food and Agriculture Organization of the United Nations.

137. **The Board encourages the Administration to expedite progress on this fundamental matter.**

B. International Trade Centre UNCTAD/WTO

138. Of the 10 recommendations made by the Board of Auditors with respect to the accounts of the International Trade Centre UNCTAD/WTO (ITC) for the biennium 2002-2003,[5] ITC has implemented 4 (40 per cent), while 4 (40 per cent) are under implementation and 2 (20 per cent) have not been implemented.

1. Recommendations under implementation, as validated by the Board

139. **In paragraph 72** of its report, the Board recommended that ITC establish and maintain ICT standards and operational practices in line with best practices, in common with other United Nations organizations, with a view to reducing risks and costs, in particular for significant projects.

140. **Comment by the Administration.** ITC is working towards aligning, to the extent possible, its infrastructure and operations with those of the United Nations Office at Geneva, and is sharing infrastructure and support with that Office and the International Computing Centre.

141. **The Board notes the lack of progress made by ITC, beyond ongoing discussions.**

142. **In paragraph 78** of its report, the Board recommended that ITC develop a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and of the funds and programmes, to obtain the benefit of best practices, where available.

143. **Comment by the Administration.** The issue is being considered by the United Nations Secretariat, under the responsibility of the Under-Secretary-General

[5] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. III, chap. II.

for Management. ITC will follow the policy that evolves from this exercise. Administrative instruction ST/AI/2004/3, concerning the financial responsibility of staff members for gross negligence, has been posted on the Intranet and a lunchtime learning seminar will be held on the subject in the third quarter of 2005. An information circular on the policy regarding the acceptance of gifts has been drafted and is being finalized. The rules governing conditions of service for consultants and the conditions of service for individual contractors have been amended to include a reference to Secretary-General's bulletin ST/SGB/2002/9, which sets out the Regulations Governing the Status, Basic Rights and Duties of Officials other than Secretariat Officials, and Experts on Mission. ITC is participating in a risk assessment study being carried out under the auspices of the Office of Internal Oversight Services. In addition, ITC has requested guidance from United Nations Headquarters and has participated as a member of the working group on fraud of the Finance and Budget Network of CEB.

2. Recommendations under implementation but not yet validated by the Board

144. **In paragraph 32** of its report, the Board reiterated its recommendation that ITC address, in conjunction with the United Nations Secretariat and with proper funding, the issue of unfunded liabilities for end-of-service and post-retirement benefits.

145. **Comment by the Administration.** So far, the only action taken by the United Nations Secretariat to address the issue of unfunded liabilities has been the preparation of a report on the funding of after-service health insurance benefits, for consideration by the General Assembly. With no solution proposed by the United Nations, ITC has not been in a position to implement the recommendation of the Board but will do so when feasible.

146. **In paragraph 60** of its report, the Board recommended that ITC review the completeness of its ICT strategic documents in a cost-effective manner.

147. **Comment by the Administration.** ITC indicates that a first draft of its strategic plan has been completed. The plan is based on strategic documents of the United Nations and the United Nations system. A guide on projects, including cost-benefit analysis has been issued and published on the Intranet and is being used for major projects (ITC projects are of limited size and value compared with those of other organizations). The document is expected to be finalized in December 2005. The UNCTAD secretariat has provided to the Trade and Development Board a draft methodology on the matter.

3. Recommendations not implemented

148. **In paragraph 43** of its report, the Board recommended that ITC consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In that regard, ITC could revert to paragraph 6 of resolution 57/278 A of 20 December 2002, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

149. **Comment by the Administration.** In the interest of harmonization across the United Nations common system, better governance disclosures will be considered by the High-level Committee on Management of CEB. In response to paragraph 9 of General Assembly resolution 59/264 A, in which the Assembly reiterated its request, a report will be prepared by the Secretary-General for its consideration at its sixty-first session. ITC will implement the subsequent General Assembly decision accordingly.

150. **In paragraph 65** of its report, the Board recommended that ITC adopt, with other United Nations organizations, a common methodology for determining the total cost of ownership of ICT.

151. **Comment by the Administration.** ITC has requested the United Nations Secretariat for its guidelines. The ICT Network of CEB is looking at ways to improve further a standard costing methodology for ICT in the United Nations system; it is expected that work will be completed in the third quarter of 2006. Pending the full development of a standardized approach for the United Nations system, ITC plans to develop its own methodology, based on best industry practice adapted to the ITC technological environment. ITC had already started work in this direction since it considered this information to be vital for its future operations, and a target date of March 2006 was set for its completion.

C. United Nations University

152. Of the 26 recommendations made by the Board of Auditors with respect to the accounts of the United Nations University (UNU) for the biennium 2002-2003,[6] UNU has implemented 9 (35 per cent), while 16 (61 per cent) are under implementation and 1 (4 per cent) has not been implemented.

1. Recommendations under implementation, as validated by the Board

153. **In paragraph 30** of its report, the Board recommended that UNU complete its reconciliation of the deferred charges and accordingly record expenditures in the appropriate financial periods to ensure that expenditures classified as deferred charges pertained only to future financial periods.

154. **Comment by the Administration.** Continuous efforts have been undertaken to complete the reconciliation, resulting in the reduction of the difference between UNU and United Nations Headquarters expenditure from $156,537 to $37,139. UNU expects full implementation by the end of December 2006.

155. **In paragraph 34** of the report, UNU agreed with the Board's recommendations that it (a) review and consider enhancing the Financial, Budgetary and Personnel Management System to make it consistent with the financial recording and reporting requirements; (b) minimize manual processes in the preparation of financial statements; and (c) ensure that adjustments made as part of the preparation of the financial statements were approved and supported by an adequate audit trail. Similarly, **in paragraph 51** of its report, the Board reiterated its recommendation that UNU enhance the Financial, Budgetary and Personnel

[6] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), vol. IV, chap. II.

Management System by introducing a fund-sufficiency checking functionality to ensure that obligations were kept within the allotment.

156. **Comment by the Administration.** UNU has set up an information system task force to evaluate the Financial, Budgetary and Personnel Management System for enhancement and improvement, while keeping in mind the budgetary constraints in the biennium 2004-2005 as regards major improvements that require additional expenditure. UNU is also evaluating the enterprise resource planning system, Atlas, implemented by UNDP, the United Nations Population Fund (UNFPA) and UNOPS.

157. **In paragraph 42** of the report, UNU agreed with the Board's recommendation that it address the inaccuracies in accounting for non-expendable property to provide complete and accurate disclosures of the value of non-expendable property as at the end of the financial period.

158. **Comment by the Administration.** The UNU procurement unit was working to identify specific items acquired and disposed of. It expected to complete this identification by the end of the first quarter of 2005.

159. **The Board noted in April 2005 that computer hardware costing $6,295.42 had not been included in the total acquisition for 2004.**

160. **In paragraph 44** of the report, UNU agreed with the Board's recommendation that it take appropriate action to determine the validity and whereabouts of the deposits and trace the amount refunded by the supplier.

161. **Comment by the Administration.** UNU will review its records to trace the deposits refunded by the supplier. Full implementation of the recommendation was expected by the end of the first quarter of 2005. The Board noted that, as at 15 April 2005, the recommendation was under implementation.

162. **In paragraph 46** of the report, UNU agreed with the Board's recommendation that it review the validity of other accounts payable to accurately reflect balances.

163. **Comment by the Administration.** UNU continues to take steps to ensure complete reconciliation, which has resulted in a reduction of the discrepancy between UNU and United Nations Headquarters expenditure from $81,495 to $37,139.

164. **In paragraph 56** of its report, the Board recommended that UNU review the funding mechanism for end-of-service and post-retirement benefits liabilities.

165. **Comment by the Administration.** A report on funding of after-service health insurance benefits was being finalized for the consideration of the General Assembly and was expected to be issued during the first quarter of 2005.

166. **In paragraph 65** of its report, the Board recommended that UNU identify measurable/quantifiable targets, accomplishments and performance indicators to improve the performance measurement process, reflect the real performance of projects and programmes and be able to link the physical accomplishments with financial expenditures.

167. **Comment by the Administration.** UNU has solicited the advice of the Board of Auditors and the Office of Internal Oversight Services on this issue. In the context of the development of the academic programme and budget for the biennium 2006-2007, UNU will develop specific indicators as part of project planning.

168. **In paragraph 76** of the report, UNU agreed with the Board's recommendation that it maintain complete and organized project documentation which would include workplans, budgets, and financial and evaluation/monitoring reports.

169. **Comment by the Administration.** UNU has made progress in this regard and expects full implementation of the recommendation by the third quarter of 2005.

170. **In paragraph 82** of its report, the Board recommended that UNU develop a long-term ICT plan on which short-term ICT requirements could be based.

171. **Comment by the Administration.** A long-term ICT plan has been under consideration. The draft plan will be submitted for endorsement at a meeting of senior officers.

172. **In paragraph 85** of the report, UNU agreed with the Board's recommendation that it establish policies that define: (a) the Campus Computer Centre's relationship within the organization; and (b) the ICT staff's duties and responsibilities.

173 **Comment by the Administration.** UNU expected to implement the recommendation by March 2005. The Board noted that, as at 15 April 2005, the recommendation was under implementation.

174. **In paragraph 89** of the report, UNU agreed with the Board's recommendation that it develop and implement procedures and standards to be followed in the procurement and tracking of information technology hardware, software and services.

175. **Comments by the Administration.** UNU expected to implement the recommendation by March 2005. The Board noted that, as at 15 April 2005, the recommendation was under implementation.

176. **In paragraph 93** of the report, UNU agreed with the Board's recommendation that it develop policies and procedures in relation to operational safeguards in the ICT environment.

177. **Comment by the Administration.** Policies and procedures have been under development. UNU expected to fully implement the recommendation by the first quarter of 2005. The Board noted that, as at 15 April 2005, the recommendation was under implementation.

178. **In paragraph 97** of the report, UNU agreed with the Board's recommendation that UNU adhere to the provisions of the Financial Regulations and Rules of the United Nations and the Procurement Manual in respect of: (a) requests for quotations for purchases of less than $25,000; and (b) documenting the justification for awarding contracts of up to $2,500 under the allowed exceptions to calling for bids.

179. **In paragraph 101** of its report, the Board recommended that UNU: (a) enforce compliance with the directives on recovery of travel advances of staff members; and (b) formulate a policy governing the granting and settlement of travel advances of non-staff members.

180. **Comment by the Administration.** In regard to the recommendations in paragraphs 97 and 101 of the report of the Board, UNU has initiated action to formulate a policy on best practices and expected full implementation by June 2005.

181. **In paragraph 106** of its report, the Board recommended that UNU finalize and implement a staff training policy in line with its needs assessment and resources and consistent with the United Nations professional development policy.

182. **Comment by the Administration.** The UNU personnel policy, spelling out the commitment towards personnel development, was approved by the UNU Council on 5 December 2003. The budget for the current biennium was approved with a budget line that specifically covers training. The draft guidelines on training and career development are under review.

2. Recommendation not implemented

183. **In paragraph 53** of its report, the Board reiterated its recommendations that UNU adopt a system-wide policy to include and allocate the salaries of researchers in costing projects.

184. **Comment by the Administration.** The recommendation was to be explored in the context of the preparation of the budget for the biennium 2006-2007 and is expected to be fully implemented by the end of December 2005.

D. United Nations Development Programme

185. Of the 79 recommendations made by the Board of Auditors with respect to the accounts of UNDP for the biennium 2002-2003,[7] UNDP has implemented 40 (51 per cent), while 38 (48 per cent) are under implementation and 1 (1 per cent) recommendation has not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

186. **In paragraph 26** of the report of the Board, UNDP agreed with its reiterated recommendation to closely monitor the financial position of the United Nations Capital Development Fund to ensure that it maintained a healthy fund balance and that UNDP evaluate project implementation with a view to ensuring that programming objectives would be efficiently achieved with limited funding.

187. **Comments by the Administration.** The United Nations Capital Development Fund has taken a number of measures to ensure the financial integrity of the Fund. It has reduced programming levels to bring the outstanding programme commitments against core resources to less than one half of the level of the allowed outstanding commitments ceiling, using the partial funding formula.

188. **In paragraph 33** of its report, the Board recommended that UNDP complete the adjustment process of all non-expendable equipment records at country offices to bring the value in line with the revised non-expendable policy.

189. **Comment by the Administration.** Adjustments to values of $1,000 or more were completed at the end of October 2004. Inventories are being verified in the Atlas system at country offices for those valued at $1,000 and above for prior years and for 2004 assets, in line with the revised policy on non-expendable equipment.

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[7] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5A* (A/59/5/Add.1), chap. II.

190. **In paragraph 70** of its report, the Board reiterated its previous recommendation that UNDP: (a) ensure that all organizational units review unliquidated obligations on a monthly basis and provide the required certification of valid obligations in a timely manner; and (b) follow up on any differences in unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

191. **Comment by the Administration.** An encumbrance accounting facility functionality was migrated to production in the third quarter of 2004. Guidelines on how to monitor and review unliquidated obligations were issued by the Comptroller's Division as part of the 2004 year-end closing instructions and have been made available to the Board for information purposes.

192. **In paragraph 97** of the report, UNDP agreed with the Board's reiterated recommendation that it include audit clauses in all project agreements and that their implementation be monitored.

193. **Comment by the Administration.** The Office of Audit and Performance Review has incorporated procedures in its country office audit guide to ensure that audit clauses are included in all project agreements.

194. **In paragraph 107** of the report, UNDP agreed with the Board's reiterated recommendation that it carry out its planned audit coverage of nationally executed expenditure projects based on the criteria stated in its audit plan guidelines. The Board also recommended that UNDP continue to explore the reasons why certain nationally executed expenditure projects were not being audited by the country offices, in accordance with UNDP guidelines.

195. **Comment by the Administration.** The Office of Audit and Performance Review of UNDP continues to follow up this matter to ensure that, for every project, either an audit is arranged or satisfactory reasons are provided for its exclusion.

196. **In paragraph 114** of the report, UNDP agreed with the Board's reiterated recommendation that it: (a) quantify the financial effect of qualified audit opinions on nationally executed expenditure; and (b) evaluate such qualifications against the action plans for reasonableness.

197. **Comment by the Administration.** The technical guidelines (Specimen terms of reference) were revised in November 2004 to require auditors to specify the financial effect of qualified, adverse or disclaimer opinions on nationally executed expenditure. The Director of the Office of Audit and Performance Review has been made directly responsible for ensuring that this is done, thus strengthening the review of audit reports on nationally executed expenditure. In addition, the regional audit service centres will perform monitoring and immediate follow-up in regard to the implementation of recommendations through the country office audits. Furthermore, initial steps have been taken to analyse audit opinions and audit findings as to frequency and seriousness; the results of the analysis will be submitted to the Management Review and Oversight Committee for review.

198. **In paragraph 131** of the report, UNDP agreed with the Board's recommendation that it translate the benefits of the Atlas project into appropriate quantifiable and measurable targets to be measured and reported on at appropriate intervals.

199. **Comment by the Administration.** A log of both the quantitative and qualitative benefits derived from the implementation of the Atlas system has been implemented and is being maintained. UNDP has also conducted a post "go live" implementation survey and documented testimonies from the field.

200. In addition, a consulting firm has been providing professional advice to UNDP on the methodology for recording and tracking benefits related to the Atlas project-. The final report, which will contain proposals on how to offer incentives to offices to declare productivity savings, was expected to be ready by the end of the second quarter of 2005.

201. **In paragraph 133** of the report, UNDP agreed with the Board's recommendation that it continuously monitor expenditures for the implementation of the Atlas system in order to remain within the allocated budget.

202. **Comment by the Administration.** Expenditures are being monitored within the existing governance structure for the ICT strategy. A budget for the maintenance of Atlas and other ICT strategy elements was presented to and approved by the senior management team and funds were made available under the support budget for the 2004-2005 biennium, in addition to an allocation of $19.5 million from extrabudgetary resources. The executive team, chaired by the Associate Administrator, provided oversight of the ICT budget.

203. **In paragraph 147** of the report, UNDP agreed with the Board's recommendation that it expedite the development and implementation of a policy on managing access to the query tool function of the Atlas system.

204. **Comments by the Administration.** UNDP has put in place a training and testing programme which certifies users to run queries. Once certified, the selected users can create read-only queries in production. Based on the defined roles in the Atlas system, authorized end-users have access to public queries for execution. Private queries are available only to the UNDP users who have created them. In addition, the row-level security filters in place are based on the user profile limit queries executed in the human resources system. UNDP will be moving the query execution capability forward to the reporting database by the end of the third quarter of 2005 to reduce the load on the production system.

205. **In paragraph 173** of the report, UNDP agreed with the Board's recommendation that it intensify its efforts to resolve the limitations affecting the non-performance of the bank reconciliation with a view to ensuring proper monitoring controls over cash balances.

206. **Comment by the Administration.** Subsequent to the implementation of the IMIS payroll and global payroll to general ledger interface in July 2004, the Atlas general ledger module was rolled out in September 2004. To enable bank reconciliation at the country office level, a custom bank reconciliation query report was implemented in December 2004. This was accompanied by a series of guidelines from the Comptroller's Division and follow-up telephone conference training sessions by the Comptroller's Division and Treasury Division.

207. **In paragraph 210** of the report, UNDP agreed with the Board's recommendation that it ensure that the Management Review and Oversight Committee met more frequently in order to carry out its oversight responsibilities effectively.

208. **Comment by the Administration.** The Management Review and Oversight Committee met in November 2004 and discussed a proposal for revising its membership and terms of reference to increase the number of external members and frequency of meetings. The aforementioned issues were on the agenda for finalization at the meeting of the Committee scheduled for May 2005.

209. **In paragraph 236** of the report, UNDP agreed with the Board's reiterated recommendation that it revise its programme of internal audit work to include an appropriate level of coverage of financial procedures and controls at headquarters.

210. **Comment by the Administration.** The audits of headquarter units have been postponed in 2004 and were included in the strategy and workplan of the Office of Audit and Performance Review for 2005. They audits will focus on financial procedures and controls.

211. **In paragraph 277** of its report, the Board recommended that UNDP perform additional trade verification procedures, such as monitoring of credit and market risk limits, independently of the trading function.

212. **Comment by the Administration.** The risk management module was implemented in the third quarter of 2004. Implemented along with the module were key reports on credit limit, counter-party limit and other criteria.

213. **In paragraph 288** of the report, UNDP agreed with the Board's recommendation that it generate and review a report of reconciling items between the treasury module and the accounting records.

214. **Comment by the Administration.** UNDP rolled out a set of inter-module reconciliation reports in the fourth quarter of 2004 to facilitate the reconciliation of items between the treasury module and accounting records.

215. **In paragraph 290** of the report, UNDP agreed with the Board's recommendation that it: (a) perform adequate internal audit reviews based on the outcome of a treasury risk assessment and bearing in mind specialist areas; (b) involve internal audit in assessing the overall adequacy of the information technology and risk management systems of the UNDP Treasury; and (c) require internal audit to report regularly to the Investment Committee on matters relating to Treasury.

216. **Comment by the Administration.** The audits of Treasury and the relevant specialist areas have been included in the 2005 audit plan of the Internal Audit Section of the Office of Audit and Performance Reviews.

217. **In paragraph 306** of the report, UNDP agreed with the Board's recommendations that it: (a) evaluate the causes for the delays in completely closing off projects and take appropriate action to rectify them; and (b) take immediate steps to finalize all outstanding activities of operationally completed projects in compliance with the UNDP Programming Manual

218. **Comment by the Administration.** The tracking of outstanding closure of operationally closed projects using the Atlas functionality and reporting tools will continue. At the country office level, Atlas also provides the functionality to monitor the closing of operationally closed projects.

219. **In paragraph 309** of the report, UNDP agreed with the Board's reiterated recommendation to establish benchmarks for performance for contract letting and to

monitor performance against those standards. The Board also recommended that UNDP continue to seek ways to streamline its contract-letting process.

220. **Comment by the Administration.** As part of the effort to reduce the lead time for contract letting, the UNDP Office of Legal and Procurement Services launched online access to the Advisory Committee on Procurement throughout UNDP from 1 January 2005. As at the end of March 2005, UNDP had received 203 cases for review and approval. To expedite the approval process, UNDP has set up a regional advisory committee on procurement at the Regional Bureau for Latin America and the Caribbean with effect from 15 March 2005. The Regional Chief Procurement Officer is reviewing all cases from that region.

221. **In paragraph 328** of the report, UNDP agreed with the Board's recommendation that it review the performance of staff on special service agreements during the period of service in order to: (a) effectively monitor the progress of such agreements; and (b) identify weaknesses in performance at an early stage so that the appropriate action can be taken.

222. **Comment by the Administration.** There is continuous reinforcement of the revised guidelines for special service agreements in regard to the need for a performance appraisal prior to payment for services and rehiring taking place.

223. **In paragraph 333** of the report, UNDP agreed with the Board's recommendation that it undertake timely performance assessments for appointments of limited duration in order to: (a) effectively monitor their progress; and (b) identify weaknesses in performance at an early stage so that appropriate action could be taken.

224. **Comment by the Administration.** Managers at UNDP have been reminded to prepare timely performance assessments and identify weaknesses in performance, when appropriate. The draft guidelines for appointments of limited duration and the new results and competency assessment guidelines specify that persons appointed for a limited duration who have served for at least six months should be reviewed at the same time as staff appointed under the 100 and 200 series of the Staff Rules.

225. **In paragraph 340** of the report, UNDP agreed with the Board's recommendation that it follow a more rigorous process in future to ensure that value-for-money was obtained when consultants were appointed.

226. **Comment by the Administration.** UNDP considers value-for-money a key criterion in the review and approval of all contracts. Benchmarks used include the benchmark prices established by the Inter-Agency Procurement Services Office and the consultancy fees being charged. In addition, emphasis is placed on linking the cost with various deliverables specifically related to professional services instead of a lump-sum price.

227. **In paragraph 358** of the report, UNDP agreed with the Board's recommendation that it continuously monitor the savings derived from the retrofitting of the FF building to evaluate if the project generated the expected savings.

228. **Comment by the Administration.** In accordance with the maintenance agreement between the vendor and UNDP dated 4 September 2001, measurement and verification have been completed for 2002 and 2003. The results for 2003 were delayed owing to the major renovations which were carried out on four floors of the

FF building during 2003/04. For 2002, there were savings of 473,062 kWh; for 2003, average energy savings were of the order of 27.6 per cent.

229. **In paragraph 371** of its report, the Board recommended that UNDP expedite its follow-up of the outstanding response with the Office of Legal Affairs of the United Nations Secretariat and intensify its efforts to finalize the outstanding reimbursement.

230. **Comment by the Administration.** The outstanding dispute between UNDP with the Office of Legal Affairs and the United Nations Children's Fund (UNICEF) was resolved in the first quarter of 2005. UNDP, the Office of Legal Affairs and UNICEF have agreed to settle the outstanding amount.

2. Recommendations under implementation, as validated by the Board

231. **In paragraph 54** of the report of the Board, UNDP agreed with the Board's recommendation that it consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In that regard, UNDP should revert to paragraph 6 of resolution 57/278 A, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

232. **Comment by the Administration.** at the initiative of UNDP, this item was placed on the agenda of the meeting of the High-level Committee on Management of CEB in October 2004. It was decided that an existing working group would address the issue, with the objective of harmonization in the United Nations system.

233. **In paragraph 86** of its report, the Board recommended that UNDP, in conjunction with other United Nations organizations, develop mechanisms to effectively control inter-agency transactions in an efficient manner and clear outstanding reconciling items.

234. **Comment by the Administration.** In January 2005, UNDP concluded a series of inter-agency meetings in New York, Geneva and Vienna, and consulted with relevant United Nations partner agencies on a number of inter-agency functionalities with a view to ensuring effective control of inter-agency transactions. The enhanced functionalities are expected to be implemented progressively in Atlas between the fourth quarter of 2005 and second quarter of 2006.

235. **The Board is concerned with the time frame for the implementation of its recommendation since the outstanding reconciling items may have an impact on the preparation of the financial statements for the 2004-2005 biennium.**

236. **In paragraph 157** of the report, UNDP agreed with the Board's recommendation that it perform an independent comprehensive post-implementation evaluation review of the set-up and effectiveness of the built-in controls of the Atlas system as soon as possible.

237. **Comment by the Administration.** An independent company commissioned by the Office of Audit and Performance Review has been reviewing controls and risks following the implementation of Atlas. The draft report was expected to be

ready during the second quarter of 2005. Also, the Office has conducted a post-implementation review of Atlas wave 1, focusing on lessons learned from that exercise, which will be applied in the implementation of wave 2.

238. **In paragraph 212** of its report, the Board recommended that UNDP address the shortcomings identified between the Management Review and Oversight Committee and best practices for an audit committee function.

239. **Comment by the Administration.** The meeting of the Management Review and Oversight Committee in May 2005 was to address the shortcomings between its present terms of reference and best practices for an audit committee.

240. **The Board recognizes that UNDP has taken action to implement its recommendation. However, UNDP should conduct such a review in the context of paragraph 6 of General Assembly resolution 57/278 A and paragraph 9 of resolution 59/264 A to ensure that a holistic review is undertaken, given the interlinkage of the many elements of good governance.**

241. **In paragraph 216** of the report, UNDP agreed with the Board's recommendation that it: (a) evaluate establishing a risk management function responsible for implementing a risk management strategy at UNDP; and (b) conduct a comprehensive risk assessment exercise.

242. **Comment by the Administration.** The Management Review and Oversight Committee reviewed the proposal for a new risk management strategy in November 2004 and was to deliberate further on it at its meeting in May 2005. As part of its mandate, the Management Review and Oversight Committee will continue to review the development and implementation of the strategy.

243. **In paragraph 219** of the report, UNDP agreed with the Board's recommendation that it establish mechanisms needed to manage risk in terms of best practices.

244. **Comment by the Administration.** See paragraph 244 above.

245. **In paragraph 229** of the report, UNDP agreed with the Board's recommendation that it: (a) consider making the Management Review and Oversight Committee part of the panel responsible for the appointment and assessment of the head of the internal audit department; (b) include evidence of considerations of independence in its working papers prior to the commencement of any audits; (c) ensure that internal audit compiled and implemented a three-year strategic plan that addresses the risk management strategy; and (d) ensure that the Management Review and Oversight Committee approved all three-year and annual audit plans and significant amendments thereto prior to implementation.

246. **Comment by the Administration.** The revision of the terms of reference of the Management Review and Oversight Committee took into consideration the recommended role of the Committee in the approval of audit plans. Also, the Office of Audit and Performance Review has been reviewing its audit planning methodology with a view to adopting a more formal risk-based approach. In the context of the review, the Office will ensure that the recommendations for the adoption of a three-year strategic plan that addresses the risk management strategy are considered.

247. **In paragraph 252** of the report, UNDP agreed with the Board's recommendation that it consider establishing a risk management framework, based on best practices, in the context of its review of governance structures, as requested by the General Assembly in paragraph 6 of its resolution 57/278 A.

248. **Comment by the Administration.** See paragraph 234 above.

249. **In paragraph 267** of the report, UNDP agreed with the Board's recommendation that it prepare, monitor and evaluate short-term projected cash flows for all country offices, in each currency, in an improved manner in order to anticipate future funding or investment requirements.

250. **Comment by the Administration.** The cash position worksheet report for headquarters was put into production in April 2005. UNDP plans to roll it out to country offices on a pilot basis in the course of 2005.

251. **In paragraph 297** of the report, UNDP agreed with the Board's recommendation that it establish a clear time frame for implementation of results-based budgeting.

252. **Comment by the Administration.** UNDP, in collaboration with UNICEF and UNFPA, presented a conceptual framework for implementing results-based budgeting in the United Nations system to the Finance and Budget Committee of the High-level Committee on Management in February 2005. It was subsequently accepted by the High-level Committee at its meeting in April 2005. UNDP, UNFPA and UNICEF are working on a common results-based budgeting vision which will be presented to their respective executive boards. By 2008, UNDP plans to integrate results-based management and results-based budgeting by effectively linking the biennial support budget (administrative resources) and substantive programme activities, as presented in the multi-year funding framework. UNDP has started to develop the key building blocks for implementing results-based budgeting. This includes employing the Atlas system as a performance management system, linking resources to results and costing of outputs and results.

253. **In paragraph 326** of the report, UNDP agreed with the Board's recommendation that it: (a) expedite its revision of the special service agreement guidelines; and (b) adhere to the special service agreement guidelines in respect of the duration of contracts.

254. **Comment by the Administration.** Draft guidelines on special service agreements have been prepared and were posted on the Procurement Network at the end of April 2005. The plan is to finalize the guidelines by June 2005.

255. **In paragraph 331** of the report, UNDP agreed with the Board's recommendation that it consistently and fully document the minutes of all ad hoc panel meetings on appointments of limited duration. Furthermore, the Board recommended that UNDP include in the file of the selected candidate the minutes of the related ad hoc panel meetings.

256. **Comment by the Administration.** A revised guideline on recruitment under the 100 and 200 series of the Staff Rules stipulates that hiring offices are required to include the results of the screening of candidates, the use of selection panels and the reference checks done in the selected candidate's file. The guidelines are being revised through the management practice network. The approval and formalization

of the final draft, incorporating feedback, was expected in the second quarter of 2005.

257. **In paragraph 352** of the report, UNDP agreed with the Board's reiterated recommendation that it finalize and implement the service-level agreements for services provided by UNDP to UNFPA and UNOPS as a matter of priority.

258. **Comment by the Administration.** Service-level agreements with UNFPA for services (Executive Board support, legal services, Treasury, finance/Comptroller and travel) were signed in the fourth quarter of 2004. Human resources for UNFPA were expected to be fully transferred to UNFPA in 2005. A service-level agreement for UNOPS was expected to be concluded by the second quarter of 2005. Memorandums of understanding for ICT production services and for development services were expected to be signed with UNFPA in the second quarter of 2005 and memorandums of understanding with UNOPS will be executed soon thereafter.

259. **In paragraph 379** of the report, UNDP agreed with the Board's recommendation that it, in conjunction with UNFPA and UNOPS, intensify its efforts to finalize the fraud-prevention strategy and fraud policy statement.

260. **Comment by the Administration.** The necessary policy statement on fraud prevention has been incorporated in the revised draft of the Procurement Manual and was to be released by the end of the second quarter of 2005.

3. Recommendations under implementation but not yet validated by the Board

261. **In paragraph 57** of the report, UNDP agreed with the Board's recommendations that it: (a) consider reviewing schedule 8 as well as note 3 (d) and note 9 to the financial statements with a view to improving its disclosure and presentation; (b) consider preparing separate statements for funds administered by UNDP; and (c) disseminate improvements made to other United Nations organizations through inter-agency mechanisms such as the High-level Committee on Management.

262. **Comment by the Administration.** Schedule 8 and separate statements for funds administered by UNDP will be dealt with in the statements for the 2004-2005 biennium. Ongoing discussions have been held with the Finance and Budget Network of the High-level Committee on improvements to the financial statements.

263. **In paragraph 59** of the report, UNDP agreed with the Board's reiterated recommendation that it expedite clearance of the outstanding reconciling items and effect the appropriate adjusting entries in a timely manner.

264. **Comment by the Administration.** UNDP continues to monitor the status of the payroll bank account reconciliation with the United Nations. Over 90 per cent of 2003 and prior reconciling items have been cleared. Items remaining, together with current items are being followed up for clearance.

265. **In paragraph 63** of its report, the Board recommended that UNDP continue to improve its mechanism to identify contributions and clear unidentified receipts in a timely manner.

266. **Comment by the Administration.** The level of the unapplied deposits at headquarters had been reduced by approximately 90 per cent at the end of 2004.

Unapplied amounts are being consistently followed up with the donors and the country offices.

267. **In paragraph 73** of the report, UNDP agreed with the Board's reiterated recommendation that it review on a regular basis the complete ageing of accounts receivable with a view to collecting long-outstanding amounts.

268. **Comment by the Administration.** UNDP has designed the accounts receivable report. Following user testing, the ageing report is expected to be rolled out by the end of the third quarter of 2005 after the completion of the 2004 financial closure in Atlas.

269. **In paragraph 77** of the report, UNDP agreed with the Board's reiterated recommendation that, in conjunction with the administrations of the United Nations and other funds and programmes, it review the funding mechanism and targets for liabilities for end-of-service and post-retirement benefits.

270. **Comment by the Administration.** Work is continuing with UNFPA and UNOPS, as well as the Finance and Budget Network, to formulate formal funding policies regarding liabilities for after-service health insurance and post-retirement benefits.

271. **In paragraph 89** of the report, UNDP agreed with the Board's reiterated recommendation that it intensify its efforts to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide information on amounts considered doubtful.

272. **Comment by the Administration.** Seventy per cent of outstanding advances are expected to be cleared by the end of 2005. At that time, UNDP will review the amount considered doubtful.

273. **In paragraph 103** of the report, UNDP agreed with the Board's reiterated recommendation that it continue to devote special attention to those country offices that do not submit their follow-up action plans and obtain and evaluate the reasons for non-submission. The Board also recommended, and UNDP agreed, that it evaluate the feasibility of extending the comprehensive audit recommendation database system to include monitoring of the status of implementation of audit recommendations made by the nationally executed expenditure project auditors.

274. **Comment by the Administration.** The Office of Audit and Performance Review is discussing with the developer upgrading of the comprehensive audit recommendation database system to extend it to country offices and project staff. This is intended to provide the offices and staff with a tool for following up the recommendations of nationally executed expenditure project auditors and to provide a basis for corporate reporting and monitoring of such recommendations. The setting up of a system dedicated solely to nationally executed expenditure audits is another option that is being considered. It is expected that this functionality will be developed, tested and made available to country offices by the end of 2005.

275. **In paragraph 111** of the report, UNDP agreed with the Board's recommendation that it intensify its efforts to complete the comprehensive database to facilitate the implementation of a risk-based assessment model.

276. **Comment by the Administration.** UNDP agrees that the process for conducting a risk assessment can be improved and anticipates that the

recommendations of the working group of the United Nations Development Group on the resource transfer modality will help to achieve this. The working group was planning to prepare guidelines on auditing and technical notes on risk assessment during the second quarter of 2005.

277. **In paragraph 118** of the report, UNDP agreed with the Board's recommendation that it compile a comprehensive ICT strategy that addresses short, medium and long-term objectives, risks and constraints.

278. **Comment by the Administration.** As part of its overall ICT security assessment, UNDP, in October 2004, appointed the Chief Information Security Officer to oversee improvements to the ICT security environment. In addition, UNDP contracted a consulting firm, through competitive bidding, to review control issues in the internal control framework. Work was scheduled for completion in the second quarter of 2005. Pending final legal and contractual clearance, another independent firm will perform a technical risk assessment of the ICT environment, on which work was expected to begin in the second quarter of 2005. In addition, the Office of Information Systems and Technology has incorporated in the budget for the 2006-2007 biennium the components necessary to maintain an appropriate risk assessment methodology. The strategy will be finalized once the reports from independent reviewers are available.

279. **In paragraph 122** of the report, UNDP agreed with the Board's recommendation that it consider the benefits of adopting international standards and best practices to be applied to its ICT environment.

280. **Comment by the Administration.** The adoption of the Information Technology Infrastructure Library (ITIL) began in the first quarter of 2005 with the focus on the problem management process, and was to be completed by the second quarter of 2005. A phased ITIL deployment exercise, to take place over the subsequent 18 months, will cover all key processes of information technology. This time line is in accordance with best business practice.

281. **In paragraph 136** of the report, UNDP agreed with the Board's recommendation that it expand contingency measures to ensure that it had the ability to provide information system processing capabilities on a continuous basis.

282. **Comment by the Administration.** The results of the assessment initiatives (see para. 280 above) will be used as the basis for determining UNDP priorities for managing information security risks and for implementing contingency measures to protect against those risks.

283. **In paragraph 164** of the report, UNDP agreed with the Board's recommendation that it institute adequate segregation of duties within the Atlas system to lower the risk of fraud and error.

284. **Comment by the Administration.** UNDP will employ the findings of the review by an independent consultant of the internal controls in the Atlas system to assess the risk associated with the practice of assigning a senior manager profile to multiple managers. Alternative solutions to mitigate the risk of non-segregation of duties at country offices will be recommended upon completion of the overall review (see para. 280 above).

285. **In paragraph 183** of the report, UNDP agreed with the Board's recommendation that it ensure that payments split between two or more budget holders were approved by all budget holders before payment took place.

286. **Comment by the Administration.** UNDP intends to employ the findings of the independent review being conducted of the internal controls in the Atlas system to implement the recommendation.

287. **In paragraph 193** of the report, UNDP agreed with the Board's recommendation that it expedite its efforts to develop and put into operation all exception/monitoring reports.

288. **Comment by the Administration.** The audit exception reports are being developed by the Office of Information Systems and Technology and were to be progressively rolled out in the second and third quarters of 2005, after completion of the statutory reports for year-end closing.

289. **In paragraph 196** of its report, the Board recommended that UNDP take immediate steps to ensure that the Brazil country office implemented the Atlas system in a cost-effective and efficient manner.

290. **Comment by the Administration.** The Brazil office moved its human resources data into Atlas as from January 2005. A decision as to when and how the Brazil office will move over to Atlas will be made during 2005 after an assessment of the extent to which the external access functionality in Atlas is to be implemented.

291. **In paragraph 204** of its report, the Board recommended that UNDP allocate resources urgently to resolve the shortcomings identified with the Atlas system as soon as possible, especially those classified as critical.

292. **Comment by the Administration.** As part of the Atlas change control management process, all outstanding critical change requests have been reviewed and recategorized, based on new input from the user community. Since July 2004, all enhancements to the Atlas system have been managed in accordance with its change management framework.

293. **In paragraph 246** of the report, UNDP agreed with the Board's recommendation that it: (a) determine a standard time frame for the timely issuance of reports; and (b) monitor compliance with those standards on a regular basis while documenting and following up the reasons for any significant delays.

294. **Comment by the Administration.** The standard time frame for the issuance of audit reports is to be examined as part of the review of its audit procedures. Monitoring compliance and following up reasons for delays will be a key responsibility of the quality assurance officer.

295. **In paragraph 256** of the report, UNDP agreed with the Board's recommendation that it: (a) update the current treasury policies and procedures to bring them into line with best practices, taking into account the restructuring process and the implementation of the Atlas system; and (b) incorporate all management reporting policies and procedures into the treasury policy and procedures.

296. **Comment by the Administration.** The Treasury Policy and Procedures Manual will be updated by the end of the second quarter of 2005.

297. **In paragraph 274** of the report, UNDP agreed with the Board's recommendation that it periodically review the delegated levels of authority in Treasury to reaffirm the appropriateness of such authorities.

298. **Comment by the Administration.** As at March 2005, Treasury management was periodically reviewing the delegated levels of authority. This will be continually done, in conjunction with staff performance reviews.

299. **In paragraph 285** of its report, the Board recommended that UNDP: (a) formally document and approve policies and procedures for the valuation of foreign exchange, bonds and interest accruals; and (b) include interest accruals in the monthly management reports.

300. **Comment by the Administration.** Treasury planned to draft a policy statement which was to be reviewed together with the Comptroller's Division by the second quarter of 2005. Supporting procedures were also to be completed within the same time frame. Management information on interest accruals is available via a query report of Atlas general ledger data.

301. **In paragraph 303** of the report, UNDP agreed with the Board's recommendation that it provide guidance to country offices in its efforts to monitor the correlation between reported expenditures and the level of project implementation. UNDP also agreed with the Board's recommendation that it improve its performance measurement process to: (a) monitor technical implementation in comparison to financial implementation at the performance indicator level and/or using a weighted average aggregate technical implementation rate, based on a feasibility analysis; (b) ensure that all targets were realistic and stated in measurable terms where possible; (c) receive progress reports in a timely manner; and (d) revise targets to take into consideration exchange rate fluctuations.

302. **Comment by the Administration.** UNDP has utilized the Atlas project module to further strengthen its results orientation by providing the linkage between disbursement levels and results. This is in line with the harmonized structure proposed by the United Nations Development Group. UNDP is planning progressively to implement functionality to set annualized output and outcome targets as well as criteria for activity quality so that the qualitative progress made towards achieving identified results is systematically monitored and captured with a view to better management of results elements, as well as practice sharing. In addition, UNDP has recently revised its Programming Manual and has adopted an industry-standard project management method, Prince2, which focuses on results.

303. **In paragraph 312** of the report, UNDP agreed with the Board's recommendation that it evaluate supplier performance in terms of the guidance provided in the UNDP Procurement Manual.

304. **Comment by the Administration.** UNDP is planning to utilize the Atlas strategic sourcing module to enhance the vendor sourcing, supplier selection and evaluation process. The planning or analysis phase is expected to begin in the fourth quarter of 2005 and the new functionality, including supplier performance evaluation, is expected to be completed in the second half of 2006.

305. **In paragraph 315** of its report, the Board encouraged UNDP to follow up on all trust funds in deficit positions with a view to recovering the expenditures in excess of the funds received.

306. **Comment by the Administration.** UNDP has been actively following up on all such deficits with a view to eliminating or recovering them and will continue to monitor this matter on a regular basis. Follow-up letters have been sent to all such funds.

307. **In paragraph 362** of the report, UNDP agreed with the Board's recommendation that it implement procedures to review environmental concerns during the procurement process, using the guidance provided in the UNDP Procurement Manual.

308. **Comment by the Administration.** UNDP supports such a procurement policy and has incorporated it into the Procurement Manual. UNDP was to develop an implementation strategy at the country level by the end of the second quarter of 2005.

4. Recommendation not implemented

309. **In paragraph 199** of its report, the Board recommended that UNDP reconsider the activation of the audit trail function, especially as an interim measure, taking into account the benefits and effect it would have on the operations of the Atlas system.

310. **Comment by the Administration.** UNDP intends to employ the findings of the independent review being conducted of the internal controls in the Atlas system to implement the recommendation.

E. United Nations Children's Fund

311. Of the 56 recommendations made by the Board of Auditors with respect to the accounts of UNICEF for the biennium 2002-2003,[8] UNICEF has implemented 25 (45 per cent), while 27 (48 per cent) are under implementation and 4 (7 per cent) have not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

312. **In paragraph 109** of its report, the Board recommended that UNICEF share the forthcoming yearly fund-raising cost structure analysis with the national committees and provide incentives to limit fund-raising costs.

313. **Comment by the Administration.** Performance benchmarks are being implemented. Key indicators by revenue stream have been agreed upon with the national committees and have been included in revenue and expenditure reporting. Analyses of revenue and expenditure have been prepared and shared with the national committees in order to maximize their net contribution to UNICEF.

314. **In paragraph 123** of its report, the Board recommended that UNICEF continuously monitor fund-raising investments, funding progress and final reports.

315. **Comment by the Administration.** Systematic reporting, follow-up and measures to ensure compliance are ongoing processes to closely monitor fund-raising investments and their returns. The results have been encouraging.

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[8] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5B* (A/59/5/Add.2), chap. II.

316. **In paragraph 148** of its report, the Board recommended that UNICEF minimize the number of staff members employed at post levels lower than their personal levels.

317. **Comment by the Administration.** The need for rotation and placement of staff does in some limited cases result in staff members being assigned to posts that do not correspond to their personal grades. While such placements are marginally significant in the overall realm of the exercise, they do provide the flexibility required by the operational imperatives of the organization.

318. **In paragraph 170** of its report, the Board recommended that UNICEF further (a) clarify its policy regarding family duty stations included in the special operations approach and (b) document and monitor decisions on special operations living allowances areas and rates.

319. **Comment by the Administration.** The UNICEF policy on the special operations approach, contained in administrative instruction CF/AI/1999-013 dated 21 December 1999, sets out clear criteria for the designation of duty stations included in the special operations approach. Operational flexibility is needed to monitor developments on the ground and make well-informed decisions as regards the appropriateness of either introducing or discontinuing this scheme at a given duty station. This was agreed following discussion among the operational agencies which apply the scheme. With regard to documenting decisions, the administrative instructions on duty stations included in the approach, which have been issued on a regular basis, describe the reasons and circumstances that lead either to the introduction or the discontinuation of the scheme. The rates, based on either the daily subsistence allowance or the mission subsistence allowance set out by, respectively, ICSC and the United Nations Secretariat, have been officially published.

2. Recommendations under implementation, as validated by the Board

320. **In paragraph 60** of its report, the Board recommended that UNICEF (a) issue a new instruction on non-expendable property, (b) investigate all remaining "suspense" items and (c) update its inventory lists.

321. **Comment by the Administration.** A new instruction on non-expendable property was to be issued in the second quarter of 2005. All remaining "suspense" items have been investigated and addressed for year-end closure. An updated inventory of non-expendable property at headquarters has been compiled.

322. **The Board will keep the first matter under review. It verified in May 2005 that the other two parts of the recommendation have been implemented.**

323. **In paragraph 76** of its report, the Board recommended that UNICEF review each year the adequacy of its provision for uncollectible contributions and cover all receivables identified as in doubt.

324. **Comment by the Administration.** UNICEF reviews its provision for uncollectible contributions annually and states that it will ensure the adequacy of the provision for doubtful amounts.

325. **In paragraph 140** of its report, the Board recommended that UNICEF (a) update and complete the human resources manual and (b) evaluate the cost-

effectiveness of translating it into other official languages widely used in its field offices.

326. **Comment by the Administration.** The updating of the human resources manual is an ongoing exercise. Significant updates were undertaken in 2004 and work on the new chapters related to emergencies and staff well-being was started in 2005. UNICEF has determined, after a review was undertaken, that translating the manual into other official languages is not feasible, given the prohibitive cost involved.

327. **UNICEF could not provide the Board with its evaluation of the cost-effectiveness of translating the manual into other official languages.**

328. **In paragraph 221** of its report, the Board recommended that UNICEF adopt a common methodology with the other United Nations organizations for (a) determining the total cost of ownership of ICT, (b) determining the variations in cost in different parts of the organization, (c) determining whether or not outsourcing of ICT activities might be a viable option and (d) evaluating ICT projects, their benefits, costs and risks, based on best practices.

329. **Comment by the Administration.** Management will continue to use information technology standards and existing governing processes to implement the recommendation. UNICEF provided input to the inter-agency budget comparison, coordinated by the International Maritime Organization on behalf of the ICT Network in March 2005.

330. **In paragraph 249** of its report, the Board recommended that UNICEF (a) conclude basic cooperation agreements according to the 1992 standard in all countries, (b) obtain full compliance with the Convention on the Privileges and Immunities of the United Nations and (c) implement the basic cooperation agreements or renegotiate as appropriate.

331. **Comment by the Administration.** UNICEF has signed five new basic cooperation agreements since January 2004. UNICEF will continue to assign priority to concluding such agreements and work to ensure that critical clauses, such as those related to immunities and privileges, as well as the contribution of host country Governments to supporting and facilitating programme operations, are complied with.

332. **In paragraph 263** of its report, the Board recommended that UNICEF review its overall anti-fraud policies and tools and update its financial circular on fraud.

333. **Comment by the Administration.** A draft document establishing procedures for reporting and addressing complaints and allegations of fraud, corruption and misconduct involving UNICEF staff has been prepared by the Office of Internal Audit and is ready for discussion.

3. Recommendations under implementation but not yet validated by the Board

334. **In paragraph 23** of its report, the Board recommended that, in the future, UNICEF ensure that the value of payables and receivables is disclosed in full, in compliance with the United Nations system accounting standards.

335. **Comment by the Administration.** UNICEF will ensure that payables and receivables are disclosed in the financial statements for the 2004-2005 biennium, in accordance with United Nations system accounting standards.

336. **In paragraph 33** of its report, the Board recommended that UNICEF disclose items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues.

337. **Comment by the Administration.** UNICEF will work with the United Nations and the Executive Committee of the United Nations Development Group to address this issue in the competent forums. Initial consultations were to held in the second quarter of 2005.

338. **In paragraph 44** of its report, the Board recommended that UNICEF, in cooperation with other United Nations organizations participating in the medical insurance plan, finalize its review of (a) the funding of the plan and (b) the way income and expenditure of the plan are disclosed.

339. **Comment by the Administration.** UNICEF is participating in the ongoing inter-agency review of the medical insurance plan. The review encompasses (a) governance, different forms of administration, design of benefits, funding of benefits etc., and (b) reporting of income and expenditure. The outcome of the review will provide the basis for a uniform approach. The review is expected to be completed in the last quarter of 2005.

340. **In paragraph 51** of its report, the Board recommended that UNICEF disclose all net contributions in its schedule 1.

341. **Comment by the Administration.** UNICEF will disclose all net contributions in schedule 1 in the financial statements for the biennium 2004-2005.

342. **In paragraph 56** of its report, the Board recommended that UNICEF (a) promulgate its instruction on monthly reporting on medical insurance plan expenditure by field offices and (b) review the accuracy of data submitted by field offices that are used in actuarial valuation.

343. **Comment by the Administration.** Based on the outcome of the ongoing inter-agency review of the medical insurance plan (see para. 341 above), UNICEF plans to issue an appropriate instruction to field offices.

344. **In paragraph 63** of its report, the Board recommended that UNICEF comply with financial circular 10, regarding the role of the headquarters Property Survey Board, including in respect of the investigation of missing property.

345. **Comment by the Administration.** Financial circular 10 was to be updated and a revision issued in the second quarter of 2005. UNICEF will ensure compliance with the provisions regarding the role of the headquarters Property Survey Board.

346. **In paragraph 66** of its report, the Board recommended that the Private Sector Division manage more proactively its accounts receivable, by systematically planning for remittances and write-offs and by a thorough annual collectability analysis of all receivables.

347. **Comment by the Administration.** The Private Sector Division will continue its rigorous monitoring and collection of accounts receivables.

348. **In paragraph 81** of its report, the Board recommended that UNICEF (a) revise the Private Sector Division special supplement to its Financial Regulations and Rules and (b) update the Division's finance manual.

349. **Comment by the Administration.** Updated information and the required changes for the supplement to the Financial Regulations and Rules are being identified by a team in the Private Sector Division, along with work on enhancing and updating the accountabilities and business processes of the Division. Updates of the manual will be done through the compilation of standard operating procedures for key principles and areas in finance and operations by the fourth quarter of 2005.

350. **In paragraph 90** of its report, the Board recommended that UNICEF use with all national committees the new joint planning documents.

351. **Comment by the Administration.** As at 31 March 2005, 20 joint planning process or joint strategic plans had been signed. Two more are expected to be signed by mid-2005, while three others are targeted for signature by the end of 2005.

352. **In paragraph 99** of its report, the Board recommended that UNICEF (a) further analyse the differences between planned and actual retention rates and (b) enforce financial rule 9.04, according to which the sales agents may be authorized to retain up to a maximum of 25 per cent of their gross proceeds from the sale of its greeting cards and products.

353. **Comment by the Administration.** Analyses and reviews of cost structures and contribution rates are being carried out and shared with the national committees. The resource mobilization objectives of the national committees, established through the joint strategic planning process, are to maximize their contribution to UNICEF programmes. UNICEF plans to revisit this issue in the context of the review by the Private Sector Division of the Financial Regulations and Rules (see para. 351 above).

354. **While the Board recognizes the progress made, it notes that no specific time frames for full implementation of the recommendation have been provided and requests that appropriate attention be devoted to the issue.**

355. **In paragraph 105** of its report, the Board encouraged UNICEF to place further emphasis on the 80 per cent target in the negotiation of the joint strategic planning documents.

356. **Comment by the Administration.** UNICEF management continues to emphasize the 80 per cent target in relevant communications between the Geneva Regional Office, the Private Sector Division and the national committees as part of the joint strategic planning process.

357. **In paragraph 114** of its report, the Board recommended that UNICEF harmonize the accounting methods for fund-raising income of the National Committees.

358. **Comment by the Administration.** UNICEF management was to review the recommendation, with completion expected by the second quarter of 2005.

359. **In paragraph 138** of its report, the Board recommended that UNICEF (a) ensure full compliance of all its decisions and instructions, such as on contracts and allowances, with the United Nations Staff Regulations and Rules, while

(b) continuing to review with the United Nations Secretariat the delegation of authority to the Executive Director.

360. **Comment by the Administration.** UNICEF has advised the Office of Legal Affairs of the United Nations Secretariat of the observation made by the Board regarding the delegation of authority to the Executive Director. UNICEF considers that the observation should be directed to the Office for response as accountability for maintaining up-to-date delegations of authority is the domain of the Secretary-General.

361. **In paragraph 144** of its report, the Board recommended that UNICEF (a) clearly define the criteria applied to assess the certainty of funding resources before including them in its budget and (b) disclose the fact that support budget documents include all estimated resources but only programme posts that are already funded.

362. **Comment by the Administration.** UNICEF agrees with the recommendation and will revise the notes of annex III in the budget document for the biennium 2006-2007.

363. **In paragraph 152** of its report, the Board recommended that UNICEF continue its efforts to expand recruitment from developing countries for international Professional posts.

364. **Comment by the Administration.** UNICEF will continue its efforts to expand recruitment from developing countries for the international Professional category and will provide information on regional recruitment to the Executive Board at its session in September 2005.

365. **In paragraph 162** of its report, the Board recommended that UNICEF improve its management of staff rotation.

366. **Comment by the Administration.** UNICEF has a comprehensive policy on staff rotation to meet its goals and objectives and will make improvements within the parameters of that policy.

367. **In paragraph 188** of its report, the Board reiterated its recommendation that UNICEF improve its data processing in order to efficiently support early supply planning.

368. **Comment by the Administration.** The Supply Division continues to work with the Information Technology Division to enhance the Cognos cube to include missing information, thereby further improving the supply planning process. The cube was updated in August 2004 but needs further enhancement.

369. **In paragraph 202** of its report, the Board recommended that UNICEF (a) set realistic deadlines for its major ICT projects and (b) allocate sufficient resources for all stages, such as gap analysis.

370. **Comment by the Administration.** UNICEF will continue to incorporate key milestones and deadlines in project charters and high-level workplans.

371. **In paragraph 239** of its report, the Board recommended that UNICEF negotiate (a) a new agreement for its Innocenti Research Centre and (b) the alignment of its planning and budget cycles with standard UNICEF cycles.

372. **Comment by the Administration.** Negotiation of the new cooperation agreement with the Government of Italy has been formally initiated and should be finalized in September 2005. Modifications to the terms of the agreement will be incorporated to the extent possible, with reference to the applicable Italian law. Further action as regards enhanced alignment with UNICEF programme and budget cycles and processes will be discussed during the forthcoming programme and budget review, in July 2005.

373. **In paragraph 253** of its report, the Board recommended that UNICEF continue to improve (a) the timeliness of the submission of donor reports and (b) the accountability of regional offices for quality control of donor reports.

374. **Comment by the Administration.** Excellence in reporting performance will be followed up on a regular basis with all programme budgetary allotment holders in the framework of accountabilities within the organization. Guidelines on thematic reporting were disseminated on 18 March 2005. The executive directive on reporting is targeted for completion by the third quarter of 2005.

375. **In paragraph 259** of its report, the Board recommended that UNICEF (a) improve its monitoring of communication activities and (b) use the new field office reporting system to monitor the cost and implementation of its communication strategy, including in connection with publications.

376. **Comment by the Administration.** The analysis of annual reports for 2004, to be carried out by the Division of Communications, has been delayed owing to emergency activity related to the Asian tsunami but should be completed by the end of July 2005.

4. Recommendations not implemented

377. **In paragraph 48** of its report, the Board reiterated its recommendation that UNICEF amend the presentation of its financial statement for cost recovery or submit a new definition of programme support expenditure to its Executive Board.

378. **Comment by the Administration.** UNICEF management plans to review this recommendation further in the context of the programmatic and business models of the organization by the fourth quarter of 2005.

379. **In paragraph 173** of its report, the Board, noting the several instances in which UNICEF had deviated from United Nations instructions regarding staff entitlements, confirmed its recommendation that UNICEF comply with United Nations staff rule 112.2 and liaise further with the United Nations Secretariat on this matter (see para. 361 above).

380. **Comment by the Administration.** UNICEF is of the view that the application and administration of staff entitlements are within the broad framework of the United Nations Staff Regulations and Rules, taking into account the operational flexibility required to meet the overall goals and objectives of the Organization.

381. **The Board draws the attention of the Secretary-General to this issue, which calls for further review.**

382. **In paragraph 226** of its report, the Board recommended that UNICEF subject all significant information technology projects to a post-implementation audit.

383. **Comment by the Administration.** UNICEF has taken note of the recommendation and will review its existing financial and project frameworks as regards the feasibility of carrying out a post-implementation audit. No such audit was carried out in 2004.

384. **The Board notes that, by May 2005, such an audit had yet to be undertaken.**

385. **In paragraph 233** of its report, the Board recommended that UNICEF join other United Nations organizations in instituting ICT project peer reviews, with a view to limiting in the long term the cost of a multiplicity of solutions responding to similar needs.

386. **Comment by the Administration.** UNICEF continues to share relevant ICT best practices with other organizations of the United Nations system, but no peer reviews have been performed or planned.

387. **The Board notes that no peer reviews had been performed or planned by May 2005. It reiterates its recommendation in the light of the concerns expressed by the General Assembly and the Secretary-General about ICT strategies and of the ICT problems recalled in the present report.**

F. United Nations Relief and Works Agency for Palestine Refugees in the Near East

388. Of the 44 recommendations made by the Board of Auditors with respect to the accounts of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) for the biennium 2002-2003,[9] UNRWA has implemented 20 (45 per cent), while 13 (30 per cent) are under implementation and 11 (25 per cent) have not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

389. **In paragraph 145** of its report, the Board recommended that UNRWA formalize an accurate calculation of the average balance of members' Fund credits.

390. **Comment by the Administration.** UNRWA has reviewed its method of calculation and found it to be correct. Both current month contributions and current month loan repayments are excluded from members' Fund balances for the purpose of calculating the average balance. Transactions representing lump-sum loan repayments, loan disbursements and withdrawals are treated as being made at the beginning of the month and are included in the calculation of the average balance. Since interest is not calculated on a daily basis, and this calculation is applied consistently, UNRWA believes it to be fair and accurate.

391. **In paragraph 170** of its report, the Board recommended that UNRWA establish a mechanism to formally evaluate, on the basis of predetermined criteria, requests from third parties to conduct audits and reviews, in consultation with other United Nations organizations, with a view to applying consistent practices. Those criteria should include consultation with the Board of Auditors in regard to requests

[9] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5C* (A/59/5/Add.3), chap. II.

that could have an impact on the Board's mandate and in the context of the General Assembly's position on third-party audit agreements.

392. **Comment by the Administration.** The UNRWA Audit and Inspection Committee deliberated on this issue in December 2004 and acknowledged that UNRWA followed the predetermined criteria for third-party audits.

393. **In paragraph 222** of its report, the Board recommended that UNRWA consider implementing performance-monitoring reports in the computer server environment to remain abreast of any errors or areas of weakness in that environment.

394. **Comment by the Administration.** UNRWA will continue to enhance its procedures, utilizing the built-in tools, and by searching the market for other tools that may be available.

395. **In paragraph 239** of the report, UNRWA agreed with the Board's recommendation that all cases of fraud and presumptive fraud be reported to the Audit and Inspection Department in a timely manner and that the Department maintain an updated database of all such matters as part of the UNRWA fraud-prevention plan.

396. **Comment by the Administration.** The Audit and Inspection Department maintains an up-to-date database which contains information on all cases of fraud and presumptive fraud.

2. Recommendations under implementation, as validated by the Board

397. **In paragraph 101** of the report, UNRWA agreed with the Board's recommendation that it: (a) reassess the representation and size of the Microfinance and Microenterprise Programme Advisory Board, with the overall objective of improving effectiveness and transparency; and (b) expand the terms of reference of the Advisory Board to include the term of membership, disclosure of conflicts of interest and remuneration benefits.

398. **Comment by the Administration.** The Advisory Board has considered these issues and recommended to the Commissioner-General that its constitution remain as it was, but to improve transparency, an annual meeting be convened, to which donors and other interested stakeholders would be invited to discuss the development, plans and objectives of the Microfinance and Microenterprise Programme.

399. The Advisory Board has also discussed the terms of reference and related issues and has recommended to the Commissioner-General that the matters raised in item (b) of the recommendation be incorporated in organizational directive No. 25.

400. **The Board noted in May 2005 that the Commissioner-General had not yet approved the amended directive.**

401. **In paragraph 181** of the report, UNRWA agreed with the Board's recommendation that it monitor vacant posts and provide at regular intervals updated information on the progress made in filling them, as well as undertake a continuous evaluation of the need for the posts.

402. **Comment by the Administration.** An Agency-wide exercise is being undertaken to evaluate vacancies in area posts with a view to establishing whether

or not such long-standing vacant posts were still needed. UNRWA has improved its recruitment processing time, which was now within the United Nations Secretariat's target of 120 days. An Agency-wide review will be conducted once a year. The field offices have been requested to evaluate the need for posts or to report on the recruitment progress.

403. **The Board noted, during its May 2005 interim audit, that while the recruitment processing time at UNRWA might have improved, numerous vacancies had existed for more than six months.**

404. **In paragraph 216** of the report, UNRWA agreed with the Board's recommendation that it pursue its plan to recruit an ICT security administrator and to develop an ICT security policy as soon as possible. UNRWA also agreed to develop, approve and update its security policy on a regular basis in order to provide guidelines for compliance by staff members, and that it communicate the policy to all personnel, stressing the importance of adherence thereto.

405. **Comment by the Administration.** The development of an ICT security policy that serves the business needs of UNRWA is to be completed by the third quarter 2005. Security plans and procedures will be developed by the end of 2005. Agency-wide implementation is expected to be completed in 2006.

3. Recommendations under implementation but not yet validated by the Board

406. **In paragraph 29** of its report, the Board recommended that UNRWA consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In that regard, UNRWA should revert to paragraph 6 of General Assembly resolution 57/278 A, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

407. **Comment by the Administration.** UNRWA will ensure adequate disclosure of items in its next published financial report, as appropriate. Full disclosure of all these issues is available in the annual report of the Commissioner-General to the General Assembly, the UNRWA biennial budget submission and other documents.

408. **In paragraph 32** of its report, the Board reiterated its previous recommendations and UNRWA agreed that it (a) provide more details on capital acquisitions, disposals and write-offs made during the biennium to reflect movements from the opening to the closing balance; and (b) improve its disclosure concerning the note for prior-year adjustments in the financial statements for the next biennium.

409. **Comment by the Administration.** Movement details for land and building construction work in progress and other fixed assets has been disclosed in the notes to the accounts. More details have been added to prior-year adjustment figures.

410. **In paragraph 34** of the report, UNRWA agreed with the Board's recommendation that it (a) continue to review the potential improvements in the financial statements with a view to better disclosing and presenting information; and (b) disseminate improvements made to the financial statements to other United Nations organizations through inter-agency mechanisms, such as the High-level Committee on Management.

411. **Comment by the Administration.** Substantial improvements have been made to improve transparency and disclosure in the notes to financial statements, the financial report and the executive summary, as well as in the main statements. Inter-agency mechanisms are used on a regular basis for the dissemination of information.

412. **In paragraph 36** of its report, the Board recommended that UNRWA consider: (a) revising its financial regulations and rules to regularize the pre-financing of projects under specified conditions; (b) maintain adequate audit trails if rules allow for the pre-financing of funds; and (c) continuously monitor the impact of pre-financing of projects on working capital and cash flow requirements.

413. **Comment by the Administration.** UNRWA has, on occasions and under tight control, allowed the advance allotment of funds to certain projects when its project cash position permitted, in order to expedite project implementation. The financial regulations and budget technical instructions will be reviewed during the current biennium in respect of this practice. A project procedures manual, issued in December 2003, sets out procedures for the authorization and monitoring of advance allotments to projects.

414. **In paragraph 41** of its report, the Board recommended that UNRWA: (a) not process transactions occurring after the end of the biennium through the cashbook; (b) apply accrual accounting to transactions that related to the current biennium but that came to management's attention only after the end of the biennium; and (c) record adjusting journal entries for the purposes of accurately preparing the financial statements.

415. **Comment by the Administration.** UNRWA will amend the closure instructions for the next biennium to prevent a recurrence of this practice.

416. **In paragraph 47** of its report, the Board recommended that UNRWA examine the discrepancies between the value cards and general ledger and take the steps necessary to reflect asset balances accurately in the notes to the financial statements. The Board also recommended that UNRWA adjust note 14, Other fixed assets, by $4.7 million to reflect the differences in asset values.

417. **Comment by the Administration.** Some of the differences will be resolved with the implementation of the fixed asset module, which is in progress. The remaining differences will be written off by December 2005.

418. **In paragraph 150** of its report, the Board recommended that UNRWA consider including external members on its Audit and Inspection Committee.

419. **Comment by the Administration.** The Audit and Inspection Committee considered this recommendation at its meeting held in December 2004 and will be making appropriate recommendations to the Commissioner-General after consideration of best practice in this regard.

420. **In paragraph 185** of the report, UNRWA agreed with the Board's recommendation that it formalize the process of succession planning.

421. **Comment by the Administration.** It is the intention of UNWRA, during the biennium 2004-2005, to improve the quality and quantity of the training provided to staff members and to increase the career opportunities of existing staff members by maximizing internal recruitment. Similarly, supervisors and managers will be encouraged to provide coaching and mentoring to staff members through in-house

and on-the-job professional development. A new division responsible for human resources planning and development was established at the end of 2004. It is expected that this division, once staffed and fully operational, will embark on systematic staff development and succession planning programmes. The new division was to be fully staffed by the end of May 2005.

422. **In paragraph 200** of its report, the Board recommended that UNRWA: (a) compile, on a periodic basis, a report containing details of all expenses incurred for training purposes as well as an assessment of whether the training objectives and needs have been met; and (b) investigate the use of distance-learning techniques.

423. **Comment by the Administration.** A newly established section will be responsible for planning, organizing, implementing and evaluating training activities in order to assess whether objectives have been met, and for monitoring costs and ensuring that appropriate ratios are analysed. The new section was to be functional early in 2005 as the final group of staff members came on board. A training needs analysis was completed in December 2003 and a training plan based on the stated needs and skill requirements is in the process of being compiled. The Agency is reviewing the education assistance programme so that a consolidated policy on education assistance, as well as distance learning, can be further developed and integrated, as appropriate. A slight increase in the number of staff members has been noted.

424. **In paragraph 206** of the report, UNRWA agreed with the Board's recommendation that it conduct a study on the use of bar coding, hand-held scanners and the consequent computerization of record updates. The Board reiterated its recommendation that UNRWA implement the asset module included in the financial management system as a matter of urgency.

425. **Comment by the Administration.** The implementation of the asset module is in progress and the use of bar coding and hand-held scanners for tagging and recording assets will be investigated during 2005.

4. Recommendations not implemented

426. **In paragraph 51** of its report, the Board reiterated its recommendation that UNRWA, in conjunction with United Nations Headquarters, review the funding mechanism and targets for providing end-of-service and post-retirement benefit liabilities.

427. **Comment by the Administration.** The Agency does not provide post-retirement benefits and has no liabilities in this connection. Separation costs are charged to the period in which payment is made. Future payments will be funded from the respective budgets. UNRWA regards the allocation of current funding to future staff costs inappropriate to its current situation. Provisions for future costs do not figure in the budget of the Agency, which requires the approval of the General Assembly. Funding for separation entitlements arising from future non-renewal of the Agency's mandate would be considered within the overall context of the political settlement of issues in the region.

428. **The Board remains of the view that UNRWA should provide for future end-of-service and post-retirement benefit liabilities.**

429. **In paragraph 58** of the report, UNRWA agreed with the Board's recommendation that it update Treasury technical instructions to provide for procedures for the evaluation and addition of new classes of financial instruments to the specified investment categories and to align those procedures to the risk profile of the Agency.

430. **Comment by the Administration.** The Comptroller will revise UNRWA Treasury technical instructions in accordance with the recommendation during the current biennium.

431. **In paragraph 60** of the report, UNRWA agreed with the Board's recommendation that it develop terms of reference for the Investment Review Committee.

432. **Comment by the Administration.** Proposals for the terms of reference for the Investment Review Committee will be submitted to the Commissioner-General of UNRWA during the current biennium.

433. **In paragraph 74** of the report, UNRWA agreed with the Board's recommendation that it update the Treasury technical instructions to specify that cash from each fund group could not be used interchangeably to meet cash flow requirements without prior approval from the Commissioner-General.

434. **Comment by the Administration.** See paragraph 432 above.

435. **In paragraph 77** of the report, UNRWA agreed with the Board's recommendation that it update Treasury technical instructions to provide for the practice followed by Treasury in the placement of investments.

436. **Comment by the Administration.** See paragraph 432 above.

437. **In paragraph 80** of the report, UNRWA agreed with the Board's recommendation that it update Treasury technical instructions to indicate how often banking agreements should be reviewed.

438. **Comment by the Administration.** See paragraph 432 above.

439. **In paragraph 86** of the report, UNRWA agreed with the Board's recommendation that it update Treasury technical instructions and expedite the complete implementation of the cash management module.

440. **Comment by the Administration.** UNRWA considers that implementation of the cash management module will not yield benefits commensurate with the work involved in resolving outstanding issues. (See also paragraph 432 above.)

441. **In paragraph 158** of the report, UNRWA agreed with the Board's recommendation that it consider expanding the terms of reference for the Audit and Inspection Committee to include a review of the presentation and disclosure of the financial statements of UNRWA.

442. **Comment by the Administration.** UNRWA reviewed the terms of reference of the Audit Inspection Committee at a meeting held on 7 December 2004, and a decision was reached not to take up the recommendation of the Board.

443. **The Board remains of the view that such a review would be beneficial to UNRWA in that it would assist the Agency in identifying, correcting and improving the presentation and disclosure of issues at a much earlier stage of**

its reporting process. Furthermore, the Board notes that responsibility for proper financial statements ultimately rests with the Commissioner-General, to whom the Audit Inspection Committee reports.

444. **In paragraph 189** of its report, the Board recommended that UNRWA consider initiating personal development plans.

445. **Comment by the Administration.** UNRWA is considering the introduction of an objectives-based performance appraisal system. Preliminary steps will be taken to expedite the revision of performance evaluation reporting to provide for recording and discussing training needs and personal development plans. UNRWA concurs with the need to evaluate training in order to assess its contribution towards the professional development and growth of its staff members. In the absence of a qualified training officer, this process has not been undertaken. The recruitment of a training coordinator was being completed and an incumbent expected to be in place by May/June 2005. The human resources module of the information technology system is unable to accommodate an objectives-based performance appraisal system; preliminary steps to revise the performance evaluation report for manual completion will, however, go ahead.

446. **In paragraph 220** of the report, UNRWA agreed with the Board's recommendation that it implement adequate back-up procedures as part of a disaster recovery plan. UNRWA also agreed to develop and approve a comprehensive disaster recovery plan, communicate it to all personnel, and test, review and update the plan on a regular basis. The Board recommended that a copy of the disaster recovery plan be kept off site.

447. **Comment by the Administration.** UNRWA recovery plans for most ICT systems exist but should be part of a comprehensive disaster recovery plan. The development of a comprehensive plan was delayed pending the conclusion in December 2004 of the security risk assessment undertaken to identify network and system vulnerabilities. The disaster recovery plan is expected to be finalized in June 2005 and tested and deployed by December 2005.

448. **In paragraph 231** of the report, UNRWA agreed with the Board's recommendation that it: (a) implement procedures to ensure that emergency changes could be performed without compromising system integrity or causing unnecessary delays in the business processes; and (b) ensure that adequate audit trails existed concerning those procedures.

449. **Comment by the Administration.** The above-mentioned issues will be addressed in the disaster recovery plan to be finalized in June 2005 (see para. 449 above).

G. United Nations Institute for Training and Research

450. Of the 15 recommendations made by the Board of Auditors with respect to the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium 2002-2003,[10] UNITAR has implemented 1 (6 per cent), while 7 (47 per cent) are under implementation and 7 (47 per cent) have not been implemented.

[10] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5D* (A/59/5/Add.4), chap. II.

1. **Recommendations under implementation, as validated by the Board**

451. **In paragraph 23** of the report, UNITAR agreed with the Board's recommendation that it take appropriate steps to find a viable solution for the funding of its General Fund expenditures, as recommended by the General Assembly.

452. **Comment by the Administration.** The financial situation of the General Fund of UNITAR improved significantly in 2004, with income in excess of expenditure of over $400,000, compared to a shortfall of income over expenditure of $130,000 at the end of the previous biennium. This was due to the expansion in the special-purpose grant projects and consequent income from programme support costs, and to the increase in voluntary contributions posted to the General Fund. (As at 31 December 2004, the value of voluntary contributions and programme support income under the General Fund amounted to more than 80 per cent of the revenue reported during the biennium 2002-2003.)

453. **In the absence of any initiative by UNITAR to establish a new funding mechanism that allows resources to be secured, the Board notes that funding sources for the General Fund remain fragile and highly dependent on the level of activity of the Institute and the interest of donors in its projects.**

454. **In paragraph 38** of the report, UNITAR agreed with the Board's recommendation that it sign an agreement with the United Nations Office at Geneva listing the nature and rate of services provided to the Institute, and consult with the Office on the matter.

455. **Comment by the Administration.** UNITAR has consulted the United Nations Office at Geneva on this matter, but the drafting and signing of the agreement is pending.

456. **The Board notes that the United Nations Office at Geneva did not provide a time frame for the issuance of the draft agreement, but indicated that it would be forwarded to UNITAR in the near future.**

457. **In paragraph 56** of its report, the Board reiterated its recommendation that UNITAR, in conjunction with the Administration of the United Nations and of the funds and programmes, review the funding mechanisms and targets for end-of-service and post-retirement benefits liabilities.

458. **Comment by the Administration.** Regarding liabilities for accrued annual leave and repatriation grants, UNITAR has continued to build up a dedicated reserve that is expected to cover total liability by six or seven years. However, regarding liabilities for after-service health insurance, no initiative has been taken so far by the United Nations; UNITAR is awaiting the outcome of the funding study currently undertaken by United Nations Headquarters.

459. **In paragraph 73** of the report, UNITAR agreed with the Board's recommendation that it increase its efforts to comply with its Statute and with the instructions regarding the geographical distribution of staff.

460. **Comment by the Administration.** In order to compensate for the over-representation of Europeans and North Americans among its staff members, UNITAR has endeavoured to promote the recruitment of staff from Latin America, Africa and Asia. Of the eight staff members recruited in 2004 and 2005 (excluding

junior professional officers), 50 per cent were from North America and Europe and 50 per cent from Africa, Asia and Eastern Europe.

461. **In paragraph 77** of the report, UNITAR agreed "to comply as much as possible" with the Board's recommendation that it comply (a) with its Statute and internal rules on the appointment and assignment of fellows, and (b) with United Nations instructions on consultants, including by considering several qualified candidates for each consultancy assignment and appointment of fellows.

462. **Comment by the Administration.** UNITAR has improved the selection process by introducing new procedures concerning documentation and competition.

2. Recommendations under implementation but not yet validated by the Board

463. **In paragraph 32** of its report, the Board recommended that UNITAR account for income in compliance with the accounting policies set in the notes to its financial statements.

464. **Comment by the Administration.** UNITAR will ensure that deferred income is recorded correctly at the closure of the biennium 2004-2005.

465. **In paragraph 36** of the report, UNITAR agreed with the Board's recommendation that it comply fully with standard 34 for accounting for contributions in kind by reporting the value of all contributions received and ensuring proper documentation of their valuation, and consult the United Nations Secretariat in regard to the valuation of conference services.

466. **Comment by the Administration.** UNITAR will ensure that contributions in kind are recorded correctly at the closure of the biennium 2004-2005.

3. Recommendations not implemented

467. **In paragraph 28** of its report, the Board recommended that UNITAR consider setting up an operating reserve in respect of its current needs.

468. **Comment by the Administration.** UNITAR maintains its position on this issue and is of the opinion that the creation of a reserve is overly prudent and not in the best interests of UNITAR since a cash flow problem would be created, resulting in each programme being cut back 15 per cent.

469. **The Board is of the view that the creation of an operating reserve would be prudent and notes that the level of the reserve could be increased within an appropriate time frame.**

470. **In paragraph 48** of the report, UNITAR agreed with the Board's recommendation that it consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues.

471. **Comment by the Administration.** UNITAR will, in conjunction with United Nations Headquarters, consider additional disclosures in its future financial reports, as appropriate, bearing in mind their usefulness and the information already provided in other reports.

472. **In paragraph 51** of the report, UNITAR agreed with the Board's recommendation that it consider defining a recosting policy as part of the formulation and monitoring of its budget.

473. **Comment by the Administration.** At its session in May 2005, the Board of Trustees amended the UNITAR budget for the biennium 2004-2005 to cover additional costs and to address the weakness of the United States dollar.

474. **The Board notes that the Institute has not yet established a formal recosting methodology.**

475. **In paragraph 69** of its report, the Board reiterated its recommendation that UNITAR (a) comply with its Statute by defining rules for admission to its core training programme, and (b) address urgently the issue of the discrepancies between the decline in contributions to its General Fund and the increase in the participation of the industrialized countries in its programme.

476. **Comment by the Administration.** The Board of Trustees did not take a decision in this regard at its sessions held in 2004 and 2005, but considers that, although priority should be given to candidates from contributing countries, candidates from non-contributing countries should not be systematically excluded.

477. **In paragraph 82** of the report, UNITAR agreed with the Board's recommendation that it (a) review the current ICT function to consider if it was appropriately staffed, (b) improve its cooperation with other United Nations organizations to further benefit from system-wide experience, and (c) adopt precise terms of reference for its information technology committee.

478. **Comment by the Administration.** The situation remains unchanged.

479. **In paragraph 85** of the report, UNITAR agreed with the Board's recommendation that it optimize more proactively the use of resources by cooperating further with other United Nations entities, particularly those engaged in training and research, including online learning.

480. **Comment by the Administration.** UNITAR has initiated some meetings with UNU and the United Nations System Staff College on the issue of e-learning, but no concrete result has so far been achieved.

481. **In paragraph 88** of its report, the Board recommended that UNITAR develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and of the funds and programmes to obtain the benefit of best practices, where available.

482. **Comment by the Administration.** UNITAR is investigating the matter.

483. **The Board notes that no action has been taken so far to implement its recommendation.**

H. United Nations Environment Programme

484. Of the 13 recommendations made by the Board of Auditors with respect to the accounts of the United Nations Environment Programme (UNEP) for the biennium

2002-2003,[11] UNEP has implemented 10 (77 per cent), while 2 (15 per cent) are under implementation and 1 (8 per cent) has not been implemented.

1. **Recommendations considered implemented but not yet validated by the Board**

485. **In paragraph 46** of the report, UNEP agreed with the Board's recommendation that it promptly allocate and recover the charges in respect of rents paid by the UNEP Regional Office for Europe on behalf of other offices.

486. **Comment by the Administration.** The Administration has requested the other offices in the UNEP building to obligate annually the necessary funds for rental charges.

487. **In paragraph 48** of the report, UNEP informed the Board that it had established a mechanism to comply with the established guidelines on the maintenance of the petty cash fund.

488. **Comment by the Administration.** The Administration confirms the setting up of a mechanism to comply with the established guidelines.

489. **In paragraph 51** of the report, UNEP agreed with the Board's recommendation and confirmed (a) the delegation of authority to the Regional Director of the UNEP Regional Office for North America to sign as approving officer and for the Deputy Regional Director to sign as alternate approving officer; and (b) the appointment of the Administrative Assistant as the certifying officer for the Regional Office for North America.

490. **Comment by the Administration.** UNEP reconfirms the issuance of the necessary delegation of authority and appointment.

491. **In paragraph 55** of the report, UNEP agreed with the Board's recommendation that it formulate and enforce guidelines to enhance security with regard to access to the Integrated Accounting and Budgeting System, in order to maintain data integrity.

492. **Comment by the Administration.** A new project, which has been established and implemented to replace the Integrated Accounting and Budgeting System, will provide remote access to IMIS at the United Nations Office at Nairobi for all UNEP offices away from headquarters. Implementation of the project is ongoing and was to be finalized within the ensuing few months.

493. **In paragraph 60** of the report, UNEP agreed with the Board's recommendation that it fully integrate the requirements of results-based budgeting in the preparation of future workplans.

494. **Comment by the Administration.** This matter was part of the planning exercise for the biennium 2006-2007.

495. **In paragraph 70** of the report, UNEP agreed with the Board's recommendation that it ensure that firm commitments from interested contributors were obtained before a project was started.

[11] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5F* (A/59/5/Add.6), chap. II.

496. **Comment by the Administration.** UNEP confirms that firm commitments and pledges from interested contributors are obtained before the commencement of projects.

2. Recommendations under implementation, as validated by the Board

497. **In paragraph 62** of the report, UNEP agreed with the Board's recommendation that it update the property and inventory control records, with emphasis on the financial value of each item, and reconcile those records with the summary statement of inventory.

498. **Comment by the Administration.** The United Nations Office at Nairobi has undertaken a valuation of buildings and installations at the United Nations complex, as well as of all non-expendable property of UNEP, the United Nations Human Settlements Programme (UN-Habitat) and the United Nations Office at Nairobi. The completion of this exercise will bring all property and inventory control records up to date and will also ensure that financial values are assigned to all non-expendable property belonging to the above-mentioned offices. The Administration expects to complete the project by the end of 2005.

499. **The Board notes that a discrepancy of $6,257,910 between the summary statement and physical inventory report still existed as at 31 December 2004, and that the financial values and dates of purchases were not indicated in the inventory report. The Board reiterates its previous recommendation.**

500. **In paragraph 68** of the report, UNEP agreed with the Board's recommendation that it (a) establish delivery dates on consultancy contracts; (b) require consultants to submit progress reports and proof of accomplishments on completed phases as the basis for determining the amount to be paid; and (c) ensure that both parties sign contracts prior to the effective dates.

501. **Comment by the Administration.** UNEP, together with the Human Resources Management Service at the United Nations Office at Nairobi, will establish checklists for the recruitment and management of consultancies to ensure that relevant regulations and rules are complied with. Implementation of the recommendations will be completed by the end of 2005.

502. **The Board notes that 10 of the 13 consultants hired between March and November 2004 commenced work before the approval of the contract, and payments were made to consultants without the required approval and the signatures of the contracting parties. The Board reiterates its previous recommendation.**

3. Recommendation under implementation but not yet validated by the Board

503. **In paragraph 74** of its report, the Board recommended that UNEP develop and implement (a) an ICT strategic policy; and (b) policies on the acquisition and maintenance of ICT.

504. **Comment by the Administration.** The recommendation will be implemented in the context of the audit report of the Office of Internal Oversight Services on information technology management by UNEP. UNEP deliberated on that report in August 2004 to determine the best course of action to implement the audit recommendations of the Office and the Board.

4. Recommendation not implemented

505. **In paragraph 42** of the report, UNEP agreed with the Board's recommendation that it disclose in the notes to the financial statements the amount of non-expendable property "pending write-off".

506. **Comment by the Administration.** Non-expendable property has been correctly categorized in note 9 to the financial statements for the first year of the 2004-2005 biennium, ending 31 December 2004.

507. **The Board notes, however, that non-expendable property approved for disposal costing $1,882,651 and non-expendable property pending approval for disposal costing $16,493 were not disclosed in the financial statements as at 31 December 2004. The Board reiterates its previous recommendation.**

I. United Nations Population Fund

508. Of the 57 recommendations made by the Board of Auditors with respect to the accounts of UNFPA for the biennium 2002-2003,[12] UNFPA has implemented 38 (67 per cent), while 17 (30 per cent) are under implementation and 2 (3 per cent) have not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

509. **In paragraph 42** of the report, UNFPA agreed with the Board's recommendation that it: (a) conclude its reconciliation of the non-expendable equipment as a matter of urgency in order to ensure that opening balances entered into the Atlas system were correct; and (b) implement controls to ensure that the respective units verified the equipment in their possession on a regular basis, which should then be reconciled with the completed inventory listing.

510. **Comment by the Administration.** UNFPA undertook an inventory count of 100 per cent of its physical assets at headquarters in June and October 2004. The physical count was reconciled with the asset management database. Revised guidelines for the 2003 inventory were issued in November 2004. The Atlas asset management module went live on 3 February 2005 and revised guidelines for 2004, concerning asset management, were issued on 7 February 2005 to all organizational units of UNFPA.

511. **In paragraph 57** of its report, the Board recommended that UNFPA, in conjunction with other organizations in the United Nations system: (a) investigate unreconciled balances with a view to resolving this expeditiously; and (b) develop procedures to resolve future inter-agency balances in a timely manner.

512. **Comment by the Administration.** As at 30 September 2004, UNFPA had completely reconciled the balances outstanding with United Nations implementing agencies. UNFPA has also established improved reporting procedures to prevent future recurrences of that nature.

[12] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5G* (A/59/5/Add.7), chap. II.

513. **In paragraph 66** of its report, the Board recommended that UNFPA continue to closely monitor hedging transactions and obtain adequate information from UNDP in a timely manner, in order to ensure proper accounting of transactions.

514. **Comment by the Administration.** UNFPA has implemented a process of monitoring transactions, developed for UNFPA by UNDP, in the areas of Treasury, investments and cash management. As a result, communication on these issues has improved. Effective 1 January 2004, UNFPA had a dedicated unit within its Finance Branch to record receipts and to forecast income and expenditure. The unit receives monthly investment and hedge position reports from UNDP.

515. **In paragraph 71** of its report, the Board recommended that UNFPA implement procedures to prevent the pre-financing of projects.

516. **Comment by the Administration.** The commitments control module and the requirement for expenditures to pass budget checking in the Atlas system have been effectively preventing pre-financing. Access to real-time information enables monitoring by management to ensure that pre-financing does not take place without proper authorization. In Atlas, project budgets are set to the available amount of cash, and expenditures cannot exceed that amount.

517. **In paragraph 83** of the report, UNFPA agreed with the Board's recommendation that it intensify its efforts to implement the age analysis using the Atlas system in order to better monitor funds advanced to implementing partners.

518. **Comment by the Administration.** In conjunction with Atlas partners and experts in information technology, UNFPA reviewed options for designing and developing an ageing report for funds advanced to implementing partners. The function is available to draw ageing reports on Atlas. In addition, several new processes have been implemented to enable better monitoring of funds advanced to implementing partners.

519. **In paragraph 87** of its report, the Board reiterated its recommendation and UNFPA agreed to: (a) include in its monitoring tools details of the appointment of auditors of nationally executed expenditures; and (b) use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.

520. **Comment by the Administration.** The Audit Services Branch of UNFPA requested country offices to submit the required information. As at 11 February 2005, 92 per cent of offices had responded with the required information for 2003. For 2004, the Branch requested offices to submit the information as part of their 2004 audit plans which were due by 31 October 2004. As at 11 February 2005, 72 per cent of offices had included the information in their audit plans. The Branch will send reminders to offices to submit the required information.

521. **In paragraph 102** of its report, the Board reiterated its previous recommendation and UNFPA agreed to continue to devote special attention to those country offices that had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline.

522. **Comment by the Administration.** For 2004, the request for audit plans was sent earlier to give offices advance notice and time to prepare their audit plans, which were due by 31 October 2004. As at March 2005, 85 per cent of offices had

submitted their audit plans. The Audit Services Branch will send reminders to the offices which have not yet submitted them.

523. **In paragraph 107** of its report, the Board recommended that UNFPA continue to follow up on country offices that failed to comply with the organization's directives on the audit of projects.

524. **Comment by the Administration.** The Audit Services Branch has sent reminders on a regular basis and has enlisted the assistance of the geographic divisions to obtain outstanding project audit reports. Compliance by country offices with nationally executed expenditure and the audit requirements of non-governmental organizations has also been reflected in the annual performance evaluation of UNFPA representatives. As at March 2005, 87 per cent of expenditure for 2003 had been audited.

525. **In paragraph 123** of the report, UNFPA agreed with the Board's recommendation that it continue its efforts to develop a risk-based database.

526. **Comment by the Administration.** The Audit Services Branch has established a risk-based database which will be updated on a regular basis.

527. **In paragraph 162** of the report, UNFPA agreed with the Board's recommendation that, in conjunction with UNDP, it intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.

528. **Comment by the Administration.** UNFPA was able to close its accounts and publish a set of financial statements for the 2004 financial year by the end of May 2005. The general ledger module is thus in place, although it continues to have some system-generated problems. UNFPA continues to work closely with UNDP to resolve this issue.

529. **In paragraph 174** of its report, the Board recommended that UNFPA, in conjunction with UNDP, ensure that payments split between two or more budget holders were approved by both budget controllers before payment takes place.

530. **Comment by the Administration.** This feature will be made available in the second wave of enhancement of the Atlas system subject to a final cost evaluation. In the interim, exception reports are available to protect against the risk of error. A memorandum has been issued jointly by UNFPA and UNDP to all offices to ensure that all budget owners approve their part of the budget.

531. **In paragraph 206** of the report, UNFPA agreed with the Board's recommendation that it: (a) perform yearly performance reviews in a timely manner in order to ensure that relevant and meaningful individual performance plans could be prepared for the following year; (b) revise its time lines for the implementation of the performance appraisal review system; and (c) regularly monitor the performance system to ensure compliance with established deadlines.

532. **Comment by the Administration.** As at the end of April 2005, individual performance assessments had been completed for 79 per cent of its UNFPA staff. The performance appraisal and development system was launched in May 2005 after the UNFPA priority pillars (decided upon by the Executive Committee in February 2005) had been incorporated in each office management plan. The office management plans form the framework for the establishment of the outputs of individual workplans.

533. **In paragraph 212** of the report, UNFPA agreed with the Board's recommendation that it: (a) issue the contracts for consultants hired under appointments of limited duration prior to the commencement of work; (b) properly retain all contracts; and (c) maintain a current list of all appointments of limited duration.

534. **Comment by the Administration.** UNOPS took over from UNDP the administration of UNFPA staff hired under appointments of limited duration from November 2003 under the UNFPA/UNOPS service agreement covering such appointments and special service agreements. This agreement ensures better service and monitoring of contracts for appointments of limited duration. UNOPS requires a one-month lead time for recruitment under such contracts and this deadline has been strictly adhered to. In addition, UNOPS provides UNFPA with monthly status reports on appointments of limited duration, which form part of the monthly staffing report of the Division for Human Resources to senior management.

535. **In paragraph 216** of the report, UNFPA agreed with the Board's recommendation that it obtain and file medical clearance certificates before contracting staff on special service agreements, as required under the guidelines.

536. **Comment by the Administration.** In addition to appointments of limited duration, UNOPS also administers UNFPA special service agreements. UNOPS is adhering to the requirements that personnel contracted under such agreements provide medical certificates before contracts are renewed.

537. **In paragraph 224** of the report, UNFPA agreed with the Board's recommendations that it: (a) expedite implementation of the expenditures report detailing all expenses incurred for training purposes, including appropriate ratios; (b) expedite the revision of the terms of reference and mandate of the Training Advisory Committee; (c) include a representative from the Staff Council in the discussions of the Training Advisory Committee on training needs; (d) approve and implement the workplan for 2004 as soon as possible; and (e) disseminate the learning strategy throughout the organization and ensure that the Learning and Training Branch had the necessary resources and mandate to implement the strategy effectively.

538. **Comment by the Administration.** A monthly budget update is available of all expenses incurred for training purposes. UNFPA has established a Learning Advisory Board which has met three times; the number of its members has been adjusted. A Staff Council representative has been included in the Learning Advisory Board. The workplan for 2004 has been implemented and the workplan for 2005 was submitted for approval in December 2004. Results of a survey conducted in connection with the Organizational Learning Framework early in 2005 shows that 82 per cent of the UNFPA staff know that a learning strategy is in place.

539. **In paragraph 238** of the report, UNFPA agreed with the Board's recommendation that it prepare travel plans in accordance with its guidelines.

540. **Comment by the Administration.** UNFPA prepares travel plans in advance every six months, in accordance with established guidelines. These plans are approved by the appropriate Deputy Executive Director.

541. **In paragraph 264** of the report, UNFPA agreed with the Board's recommendation that it: (a) consider the impact of the Board's findings regarding

the management of UNDP Treasury in order to address all risks pertaining to UNFPA; (b) develop compensating controls where necessary; and (c) finalize an updated service-level agreement with UNDP setting out each party's responsibilities.

542. **Comment by the Administration.** UNFPA has held discussions on the service-level agreement with UNDP with the aim of reviewing the performance indicators and cost drivers of the activities of UNDP Treasury. The service-level agreements between UNFPA and UNDP were finalized in December 2004 and signed in April 2005.

543. **In paragraph 286** of the report, UNFPA agreed with the Board's recommendation that it: (a) follow up systematically the implementation of internal audit recommendations; (b) ensure that all recommendations and the follow-up actions taken were recorded in the audit database; and (c) continue to task the internal audit section with monitoring the follow-up action of the geographic units.

544. **Comment by the Administration.** The internal audit section continues to monitor the implementation of recommendations and the follow-up action of the geographic divisions in regard to the implementation of internal audit recommendations.

545. **In paragraph 308** of the report, UNFPA agreed with the Board's recommendation that it provide full details of all cases of fraud and presumptive fraud.

546. **Comment by the Administration.** Summary status reports are provided to the oversight committee on a quarterly basis for information and decision, as necessary.

2. Recommendations under implementation, as validated by the Board

547. **In paragraph 33** of the report, UNFPA agreed with the Board's recommendation that it:

(a) Consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, the Board recommended that UNFPA revert to paragraph 6 of General Assembly resolution 57/278 A, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly;

(b) Consider further improvements to the presentation and disclosure of financial statements;

(c) Disseminate improvements made at other United Nations organizations through inter-agency mechanisms such as the High-level Committee on Management.

548. **Comment by the Administration.** UNFPA will continue to review the presentation of the financial statements for the biennium 2004-2005 to see where compliance with General Assembly resolution 57/278 A in regard to governance structures, principles and accountability might be improved in a harmonized manner

among the United Nations agencies. Wherever feasible and cost-effective, UNFPA will make additions to the financial statements in the areas noted in the recommendation. UNFPA reviews the presentation of its financial statements each biennium to determine where improvements in presentation and disclosure can be made. UNFPA is participating in the discussions of the High-level Committee on Management in this area and will fully implement the recommendations made by that Committee.

549. **In paragraph 74** of the report, UNFPA agreed with the Board's recommendation that it implement a formal debt collection policy to facilitate the effective monitoring and recovery of outstanding receivables.

550. **Comment by the Administration.** UNFPA is in the process of developing a debt collection policy and will ensure that it is disseminated and put into practice during 2005.

551. **In paragraph 184** of the report, UNFPA agreed with the Board's recommendation that, in conjunction with UNDP and after assessing financial requirements, it implement firewall security at all country offices according to the recommended minimum standards for desktop and network environments.

552. **Comment by the Administration.** UNFPA and UNDP have jointly issued a request for a proposal for the development of firewall security in country offices. Implementation is a gradual process and will be done on a case-by-case basis. UNFPA anticipates 75 per cent completion by the end of 2005.

553. **In paragraph 198** of the report, UNFPA agreed with the Board's recommendation that it: (a) reduce recruitment lead time; and (b) intensify its efforts to implement workforce and succession planning.

554. **Comment by the Administration.** The Recruitment and Staffing Branch of the Division for Human Resources has created a roster of internal and external candidates to enable the placement of representatives and deputy representatives in a timely manner. The 2005 workplan of the Division includes, as an output, the development of a succession management framework by the end of 2005, for application in 2006.

555. **In paragraph 272** of the report, UNFPA agreed with the Board's recommendation that it: (a) develop an internal audit charter detailing the purpose, authority and responsibility of the internal audit function; and (b) educate personnel about the functions and positive impact of an internal audit function.

556. **Comment by the Administration.** UNFPA has drafted an internal audit charter for consideration by management and expects it to be finalized by 30 June 2005.

557. **In paragraph 306** of the report, UNFPA agreed with the Board's recommendation that it obtain the outstanding fraud and presumptive fraud reports from the country offices and take appropriate action to address the outstanding cases reported.

558. **Comment by the Administration.** UNFPA did not obtain the shortfall reports for the biennium 2002-2003. However, it has since strengthened its procedures, and the response rate for the period ending December 2004 showed significant improvement. As at 16 May 2005, only 14 of 155 reporting entities had not

responded. Action in respect of cases of outstanding and presumptive fraud is being administered by the Division for Human Resources, with support as appropriate from the Division of Oversight and Services and the Division for Management Services. Country offices report all cases of fraud and presumptive fraud to the Finance Branch. Country office staff are reminded that these reports are due by year-end each year. UNFPA has taken an altogether more disciplined approach to reporting and determining appropriate follow-up action, which is coordinated by the Division for Human Resources with the support of the Division for Management Services and the Division of Oversight and Services, and reported to the oversight committee.

3. Recommendations under implementation but not yet validated by the Board

559. **In paragraph 62** of its report, the Board reiterated its recommendation that UNFPA, in conjunction with the Administration of the United Nations and of the funds and programmes, review the funding mechanism for its liability for end-of-service and post-retirement benefits.

560. **Comment by the Administration.** UNFPA will continue to work with the United Nations and with other funds and programmes in reviewing the funding mechanism for its liability for end-of-service and post-retirement benefits. Its agreement to participate in the jointly funded review by consultants, which is to provide recommendations for the selection of a funding methodology and policy, was communicated to UNDP in October 2003. The primary activity in 2004 was to ensure that the review takes place and all information requirements were met.

561. **In paragraph 91** of the report, UNFPA agreed with the Board's recommendation that it: (a) expedite finalization of its draft guidelines on the appointment of project auditors; (b) communicate those guidelines to the country office; and (c) monitor compliance with the directives.

562. **Comment by the Administration.** A technical note on the appointment of project auditors is being finalized by the inter-agency audit task group of the United Nations Development Group, of which UNFPA is a member. The expected date of completion for this technical note is 30 June 2005. The guideline will be communicated by the Audit Services Branch to the country offices and will be monitored for compliance.

563. **In paragraph 97** of its report, the Board reiterated its previous recommendation that UNFPA: (a) ensure that standard terms of reference were agreed by the country office and government implementing partners and the auditor of nationally executed expenditure; (b) ensure that the scope and format of the audit was consistent; and (c) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.

564. **Comment by the Administration.** The inter-agency audit task group of the United Nations Development Programme, of which UNFPA is a member, is finalizing a technical note on the terms of reference for the conduct of audits. This guideline will be communicated by the Audit Services Branch to country offices. A checklist of the standard requirements to assist country offices in monitoring compliance with the requirements of the Manual has been developed by the Branch and was communicated to country offices on 10 March 2005.

565. **In paragraph 112** of its report, the Board reiterated its previous recommendation that UNFPA include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure. The Board recommended also that UNFPA evaluate the possibility of using the Comprehensive Audit Recommendation Database System to monitor the status of implementation of audit recommendations in respect of nationally executed projects.

566. **Comment by the Administration.** Action plans are captured in a database upon receipt and maintained by the Audit Services Branch. UNFPA, together with UNDP, is reviewing the possibility of utilizing the web-based Comprehensive Audit Recommendation Database System, which is accessible by country offices, to monitor the implementation of audit recommendations in respect of nationally executed projects.

567. **In paragraph 131** of its report, the Board encouraged UNFPA to further improve its ICT strategy and have this approved at the earliest possible opportunity.

568. **Comment by the Administration.** The ICT strategy has been discussed by the UNFPA Management Committee and will be submitted to its Executive Committee for approval. The expected date for the completion of the strategy is 30 June 2005.

569. **In paragraph 136** of the report, UNFPA agreed with the Board's recommendation that its internal audit verify the validity and accuracy of journals posted as a result of the data-cleansing exercise.

570. **Comment by the Administration.** The UNFPA internal audit will review and verify the data during the third quarter of 2005.

571. **In paragraph 167** of the report, UNFPA agreed with the Board's recommendation that it: (a) include appropriate terms and conditions addressing bank reconciliations in the service-level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP on its behalf until such time as the reconciliations are in place.

572. **Comment by the Administration.** UNFPA has reviewed with UNDP the service-level agreement, including the terms and conditions addressing bank reconciliations, and the agreement was finalized in April 2005. The cash transactions processed by UNDP are being monitored closely.

573. **In paragraph 171** of the report, UNFPA agreed with the Board's recommendation that, in conjunction with UNDP, it take immediate steps to rectify the weakness in the Atlas system that allowed changes to be made to payee details after the payment voucher had been approved.

574. **Comment by the Administration.** An external service provider is conducting an independent review of the internal controls for Atlas. The consultants involved will examine this weakness and provide recommendations as part of the exercise.

575. **In paragraph 256** of the report, UNFPA agreed with the Board's recommendation that it test the tools in the Atlas system that were expected to facilitate the implementation of results-based budgeting.

576. **Comment by the Administration.** UNFPA is engaged in discussions on building a prototype, based on the initial requirements for results-based budgeting identified for a phased-implementation approach. Discussions with UNDP and

UNICEF on their particular requirements, as well as a common reporting format, have been initiated.

577. **In paragraph 260** of its report, the Board encouraged UNFPA to continue with its development of results-based management and results-based budgeting in coordination with other organizations in order to benefit from best practices and lessons learned.

578. **Comment by the Administration.** An operational plan has been prepared for the transition of UNFPA to results-based budgeting. The transition is expected to be completed by 2008. A gap analysis is envisaged to assess the flexibility of the Atlas budgeting module to accommodate budgeting for results.

579. **In paragraph 279** of the report, UNFPA agreed with the Board's recommendation that it: (a) expedite the filling of vacant posts in the Division of Oversight and Services; and (b) improve its audit coverage on the reliability of the accounting and other data leading to the production of financial statements.

580. **Comment by the Administration.** UNFPA expects to have a full complement of staff on board by end of the third quarter of 2005. Once this is achieved, a strategy will be developed to implement the second part of the recommendation, on audit coverage.

4. Recommendations not implemented

581. **In paragraph 117** of its report, the Board reiterated its recommendation that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.

582. **Comment by the Administration.** For the 2004 project audits, undertaken in 2005, country offices are requested to review action plans in order to ensure that they adequately address audit qualifications which focus on material issues. The Audit Services Branch will also attempt to provide this information for the 2004 project audits. The addition of an operations manager at 44 country offices is expected to strengthen the capacity of the offices to carry out such an analysis.

583. **In paragraph 181** of its report, the Board recommended that UNFPA, in conjunction with UNDP, reconsider activation of the audit trail function, taking into account the benefits and effect it would have on the operations of the Atlas system.

584. **Comment by the Administration.** Activation of the full audit trail will result in severe degradation of system performance. Therefore, UNFPA does not recommend its activation. Every data table keeps a record of the person raising the transaction. UNFPA, together with UNDP and UNOPS, considers that this provides sufficient control but will monitor the situation.

585. **The Board will review the compensating measures during its next audit.**

J. United Nations Human Settlements Programme (UN-Habitat)

586. Of the 14 recommendations made by the Board of Auditors with respect to the accounts of the United Nations Human Settlements Programme (UN-Habitat) for the

biennium 2002-2003,[13] UN-Habitat has implemented 6 (43 per cent), while 8 (57 per cent) are under implementation.

1. Recommendations under implementation, as validated by the Board

587. **In paragraph 36** of its report, the Board recommended that UN-Habitat consider regularizing its practice of financial closure at the end of the year subsequent to the operational closure of projects and coordinate with project partners in regard to the financial closure of projects.

588. **Comment by the Administration.** Projects are closed financially at the end of the subsequent year. Such closure depends on whether transactions are still expected of the project accounts. UN-Habitat will continue to financially close, where feasible, all projects within 12 months of operational completion, in coordination with the implementing partners.

589. **In paragraph 39** of the report, UN-Habitat agreed with the Board's recommendation that it ensure the establishment of a complete and organized project documentation and filing/archiving system.

590. **Comment by the Administration.** UN-Habitat will create files for all projects, indicating all of the files available and their location.

591. **In paragraph 52** of its report, the Board recommended that UN-Habitat, in conjunction with the United Nations Office at Nairobi, take immediate action to ensure the accuracy, completeness and proper control of non-expendable property, in compliance with appropriate directives.

592. **Comment by the Administration.** Regional offices are required to submit the inventory reports on non-expendable property semi-annually. Some project management units, in particular at the Regional Office for Asia and Pacific, are not able to submit inventory reports on a regular basis because it is difficult for them to determine the correct exchange rate for certain items purchased years before. Necessary adjustments resulting from reports submitted after the financial period will be reflected in the subsequent reporting period.

593. **In paragraph 56** of the report, UN-Habitat agreed with the Board's recommendation that it ensure, in conjunction with the United Nations Office at Nairobi, full compliance regarding medical certificates, as required by administrative instruction ST/AI/1999/7.

594. **Comment by the Administration.** Human resources management staff dealing with the recruitment of consultants have been advised to pay particular attention to the requirement for a medical certificate in cases in which travel is involved.

595. **The Board is of the opinion that this requirement applies to all consultants and individual contractors and, accordingly, reiterates its recommendation on full compliance in regard to the submission of medical certificates.**

596. **In paragraph 78** of its report, the Board recommended that UN-Habitat implement adequate controls in IMIS to avoid the occurrence of over-obligations or overexpenditures in the implementation of technical cooperation projects and to

[13] See *Official Records of the General Assembly, Supplement No. 5B* (A/59/5/Add.8), chap. II.

reflect the actual financial status of projects in the IMIS-related project status reports.

597. **Comment by the Administration.** The Administration has strengthened the existing check and control function to avoid the occurrence of overexpenditures. As in the case of the Regional Office for Africa and the Arab States, the occasional overexpenditure will occur but is always resolved through bilateral discussion with the donor who will usually agree to increase the funding.

598. **In paragraph 81** of the report, UN-Habitat agreed with the Board's recommendation that it develop results-based budgeting indicators.

599. **Comment by the Administration.** UN-Habitat has been implementing results-based management since 2000, in full compliance with the guidelines of the Programme Planning and Budget Division at United Nations Headquarters. UN-Habitat has introduced an improved presentation for future work programmes, as appraised by the Advisory Committee on Administrative and Budgetary Questions for the biennium 2006-2007, and is continuing to prepare its programme and budget submissions in a results-based budget format.

2. Recommendations under implementation but not yet validated by the Board

600. **In paragraph 26** of its report, the Board recommended that UN-Habitat disclose, in conjunction with the United Nations Office at Nairobi, the breakdown of all sources of miscellaneous income and the amount of non-expendable property sold and donated with an explanation as to the reasons for adjustments.

601. **Comment by the Administration.** UN-Habitat, in coordination with the United Nations Office at Nairobi, disclosed the sources of miscellaneous income in its 2004 financial statements (statements I and IV). Although the breakdown of non-expendable property was provided in note 6 to the 2004 financial statements, appropriate and detailed disclosure of whether the non-expendable property has been sold or donated, with explanations for any adjustments, will be reflected in the final financial statements for the biennium 2004-2005.

602. **In paragraph 44** of the report, UN-Habitat agreed with the Board's recommendation that it inform the United Nations Office at Nairobi of movements or transfers of property in a timely manner in order to facilitate the recording of adjustments in the property records.

603. **Comment by the Administration.** Efforts are being made to ensure that accurate inventory records are maintained. The United Nations Office at Nairobi is finalizing the annual inventory stocktaking which will update property records; this will be used as a starting point for implementing a system to control the movement of property between offices.

604. **The Board notes that the Administration has failed to notify the United Nations Office at Nairobi of matters concerning property movements. The Board reiterates its previous recommendation.**

K. United Nations Office on Drugs and Crime

605. Of the 17 recommendations made by the Board of Auditors with respect to the accounts of the Fund of the United Nations International Drug Control Programme

for the biennium 2002-2003,[14] the United Nations Office on Drugs and Crime has implemented 14 (82 per cent), while 3 (18 per cent) are under implementation.

Recommendations under implementation, as validated by the Board

606. **In paragraph 90** of its report, the Board recommended that the United Nations Office on Drugs and Crime follow up all audit reports on nationally executed expenditure outstanding for past bienniums.

607. **Comment by the Administration.** The Office agreed to follow up outstanding reports for the biennium 2002-2003. As at December 2004, only one report was outstanding. The Office continues to follow up the reports with the offices concerned and with those of the United Nations Development Programme.

608. **In paragraph 96** of the report, the Board recommended that the United Nations Office on Drugs and Crime strengthen its controls on and requirements for nationally executed projects.

609. **Comment by the Administration.** The call for the 2004 audit of nationally executed projects emphasized the requirements for the audit. A management instruction on nationally executed projects is to be issued, effective 1 June 2005.

610. **The Board notes that the implementation of this recommendation partly depends on the signing of a revised working arrangement between UNDP and the United Nations Office on Drugs and Crime, which the Board has recommended for over two years.**

611. **In paragraph 106** of its report, the Board recommended that the United Nations Office on Drugs and Crime update and extend management instructions, such as those on cash or inventory management.

612. **Comment by the Administration.** Cash and bank account management instructions have been issued to all field offices through numerous communications and were also distributed at the seminar of field representatives held in 2004. These instructions will be reflected in the management instruction on field office administration, to be issued on 1 June 2005.

L. United Nations Office for Project Services

613. Of the 39 recommendations made by the Board of Auditors with respect to the accounts of UNOPS for the biennium 2002-2003,[15] UNOPS has implemented 11 (28 per cent), while 21 (54 per cent) are under implementation and 7 (18 per cent) have not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

614. **In paragraph 70** of its report, the Board, while recognizing the efforts made by UNOPS to review unliquidated obligations, reiterated its recommendation that UNOPS conduct more regular reviews of all unliquidated obligations in a timely

[14] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5I* (A/59/5/Add.9), chap. II.

[15] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5J* (A/59/5/Add.10), chap. II.

manner. It also recommended that UNOPS enforce strict financial discipline with regard to project officers creating only valid obligations.

615. **Comment by the Administration.** As at 31 December 2004, UNOPS cancelled purchase orders for prior years, amounting to $65 million. UNOPS policy will be to conduct monthly reviews to cancel all unliquidated obligations older than six months.

616. **The Board notes that the cleansing of 2005 data had not been conducted as at May 2005. UNOPS would not therefore have been in a position to perform proper reviews of its unliquidated obligations.**

617. **In paragraph 147** of the report, UNOPS agreed with the Board's recommendation that it identify all changes made in the Atlas system since the previous training and provide updated training to users on such changes.

618. **Comment by the Administration.** UNOPS has, in 2004 and 2005, conducted several training sessions which focus on staff needs. UNOPS has implemented an Atlas training module on its Intranet. The changes to Atlas have been communicated through the UNOPS Intranet to all staff.

619. **The Board notes that UNOPS has reduced the allocation of funding resources to training. In 2004, UNOPS spent $201,554 for training on the change management initiatives; however, as at 13 May 2005, the UNOPS training budget for 2005 reflected a total allocation of $85,670. This decision could be attributed to the resource constraints of UNOPS, whereby variable overheads needed to be reduced to ensure that UNOPS had a surplus to contribute to its operational reserve.**

620. **In paragraph 179** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, ensure that payments split between two or more budget holders were approved by both budget holders before payment takes place.

621. **Comment by the Administration.** There has been an exchange of correspondence between budget holders in the same division, whereby one budget holder will sign the e-mail as acknowledgement of having noted that the transaction had been approved. If the budget holders are from different divisions, the Acting Comptroller will also approve the transaction.

622. **The Board notes that the implementation of the above-mentioned control was a decision taken by the trilateral advisory panel which is made up of representatives of UNDP, UNFPA and UNOPS.**

623. **In paragraph 182** of the report, UNOPS agreed with the Board's recommendation that it institute alternate controls to manage project costs until such time as the correct budgets were reflected in the Atlas system.

624. **Comment by the Administration.** UNOPS has implemented internal control procedures to ensure that project budgets are approved in Atlas before the funds can be used. The finance division reviews all submissions to ensure that all documents have been provided before it approves the budget in Atlas. Purchase orders cannot be processed unless they pass through the budget-check function, which does not permit expenditure in excess of the project budget for that accounting period, or in excess of cash received. However, provision has been made within the Atlas control

framework for authority to override the budget-check function in instances in which delivery must take place and in which sufficient client budget commitments exist in the following accounting period (known as budget rephasing), client authority has been received to spend against a provisional budget pending the signing of agreements, there are delays in closing prior-year project accounts or deposits have been received but not allocated in Atlas. UNOPS agrees that overriding commitment control in Atlas is not satisfactory and that it could be minimized by better project planning, quicker year-end closing of project accounts and more prompt allocation of cash receipts in Atlas.

625. **The Board notes that 2004 project expenditures exceeded approved 2004 project budgets in Atlas by $40.3 million, of which a sample $23.2 million was tested. UNOPS attributes these project overruns to the reasons for overriding the Atlas budget-check function, mentioned above. Although the Atlas facility provides for the entry of correspondence and notes in the system to explain these overruns, there were no such entries in the system that could be verified during the audit. The Board does recognize that budget rephasing may have occurred subsequently. However, it remains concerned about the risk of budget overruns given the material amounts of budgeted project expenditure rephased from 2005 to 2004 and will keep this matter under review.**

2. Recommendations under implementation, as validated by the Board

626. **In paragraph 38** of the report, UNOPS agreed with the Board's reiterated recommendation that it exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets were established.

627. **Comment by the Administration.** UNOPS has exercised caution in its budgetary assumptions. The current emphasis is to align budgeting policies and procedures with the emerging business model, and UNOPS is in the process of developing a budgeting guideline for implementation in July 2005. At its session in January 2004, the Executive Board approved a total project delivery budget of $485 million for UNOPS. The preliminary results for UNOPS for 2004, as at 14 April 2005, reflect actual revenue of $44.2 million with corresponding expenditure of $55.6 million, representing a $5.8 million increase in revenue and a $3.2 million increase in expenditure over the amounts projected in January 2005.

628. **The Board notes that the revised total divisional forecasts by UNOPS only amounted to $460 million in April 2004. In that same month, the UNOPS Afghanistan Project Implementation Facility was initially forecasted to achieve a delivery level of $75 million, but its actual delivery for 2004, based on preliminary results as at May 2005, was $136.6 million, representing an 82 per cent increase over budgeted delivery. The total loss of UNOPS for 2004 could have been $14.9 million had the Facility not been able to make a positive impact on the bottom line by generating an additional $3.5 million in revenue.**

629. **The Board also notes that UNOPS experienced challenges relating to the integrity of its financial data. During 2004, it did not have a general ledger and indications were that there were errors in the data recorded. UNOPS had to perform data cleansing in order to obtain reasonable assurance regarding the reliability of its financial data. It was therefore unable to present a reasonable projection of its results to the Executive Board at the session in January 2005. At that session, UNOPS reported projected revenue for 2004 at a level of**

$38.4 million, with corresponding expenditure of $52.4 million (see DP/2005/9). Furthermore, the actual project delivery of UNOPS for 2004, as at 14 April 2005, reflected an increase of $107 million over its January 2005 projection of $382 million. UNOPS considers that the January 2005 projection to the Executive Board to be preliminary as it was calculated before UNDP closed its accounts and was therefore likely to significantly underestimate delivery. The Board nevertheless considers that UNOPS should be able to make reasonable projections even before accounts are processed by UNDP.

630. **In paragraph 48** of the report, UNOPS agreed with the Board's reiterated recommendation that it (a) evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs were identified and recovered, (b) implement a system that addressed all shortcomings identified in the existing workload system and (c) consider the feasibility of using a fixed minimum margin to be able to better control fluctuations in cost recovery rates, while ensuring that UNOPS remains cost-effective.

631. **Comment by the Administration.** UNOPS is in the process of developing a pricing model with the aim of having a draft policy on fees by June 2005.

632. **The Board notes that the UNOPS pricing policy was still at a conceptual stage as at May 2005. Accordingly, the Board is not in a position to assess the basis and reasonableness of assumptions or the impact on UNOPS competitiveness and profitability. The Board will review the above-mentioned policy document at its next planned audit visit to UNOPS headquarters.**

633. **The Board also notes that the Executive Director of UNOPS issued a project acceptance directive to staff on 28 April 2005, which stated that projects should only be accepted on the basis of full cost recovery for project-related costs. Bearing in mind the timing of this directive, and considering that the UNOPS budgeted project delivery of $641 million for 2005 was based on information collected prior to the issuance of the directive, the Board is of the view that the actual impact of the directive will not be measurable until all project agreements are concluded on a full cost-recovery basis.**

634. **The Board will monitor the impact of the directive on the financial status of UNOPS during the final audit visit to be conducted for the 2004-2005 biennium. As a result of potentially not recovering all costs incurred on all projects accepted prior to 28 April 2005, UNOPS may not have sufficient funds to contribute to the operational reserve. The Board recommends that UNOPS identify and assess the impact that projects accepted prior to the implementation of the Executive Director's directive may have on its operational reserve balance.**

635. **In paragraph 52** of the report, UNOPS agreed with the Board's recommendation that it carefully consider the potential impact prior to any further reductions in the number of employees, as this could affect its ability to meet project delivery needs and a further loss of skills and resources could have a negative impact on its ability to comply with finance and administration requirements.

636. **Comment by the Administration.** UNOPS continuously considers the impact that reductions and shifts in staffing numbers have on the conduct of its business. The staff reduction exercise in 2004 was necessary to align its staff complement with its organizational structure. Although UNOPS may have been cautious as

regards the impact of the restructuring on revenue, the event did in fact impact on its revenue-generating ability and it was only through the significant revenue levels achieved by its Afghanistan Project Implementation Facility that UNOPS was able to reduce the total effect on its revenue.

637. **The Board notes that employees were made redundant as surplus to requirements in terms of the revised organizational structure. As mentioned in paragraph 630 above, the UNOPS deficit for 2004 would have been even higher had the delivery and, consequently, revenue of its Afghanistan Project Implementation Facility not exceeded its forecasted target. Fortunately, income from the Facility was able to absorb losses in other divisions, most notably the UNOPS Asia office, where actual project delivery for 2004 fell short of its budget target of $47.5 million by 64 per cent. UNOPS considers that the actual revenue of the Asia office (including revenue from services and not just project delivery) was only $0.8 million below budget, a shortfall of 17.6 per cent.**

638. **In paragraph 58** of the report, UNOPS agreed with the Board's reiterated recommendation that it remain focused on preparing budgets and revisions thereto on a basis that is more in line with realistic project delivery.

639. **Comment by the Administration.** The budgets for UNOPS projects are reviewed on a quarterly basis and budget revisions are effected accordingly.

640. **The Board notes the progress made in monitoring project budgets. However, based on the preliminary results for 2004, the preparation of budgets and revisions thereto should remain an area of focus. The actual delivery of UNOPS for 2004, based on unaudited preliminary results, exceeded the budgeted delivery by 1 per cent ($4 million). Actual expenditure exceeded budgeted expenditure by 0.5 per cent. Although the variance may appear insignificant overall, the Board notes that the actual variances in individual line items were significant, most notably a 40 per cent ($1 million) increase in costs related to Atlas. This represented an increase in the UNOPS share of the application service provider fee, which is beyond its control. The Board notes that a 49 per cent ($4 million) decrease in change management costs is primarily a response to meet the fixed portion of Atlas costs as well as the reimbursement costs of United Nations agencies, which were not budgeted for.**

641. **In paragraph 76** of the report, UNOPS agreed with the Board's reiterated recommendation that UNOPS (a) review, in conjunction with the Administration of the United Nations and of the funds and programmes, the funding mechanism and targets for end-of-service and post-retirement benefit liabilities and (b) expedite its consideration of the funding of end-of-service liabilities, given its unique funding principles.

642. **Comment by the Administration.** UNOPS continues to work with the United Nations and other funds and programmes in reviewing the funding mechanism for its liability for end-of-service and post-retirement benefits. It made a provision amounting to $2 million for the payment of end-of-service benefits in 2004. UNOPS participated in a jointly funded consultancy to provide recommendations for the selection of a funding methodology and policy.

643. **The Board notes that the UNOPS action plan may give rise to restructuring and rationalization processes to maintain sustainability. As a result, UNOPS will have to assess proactively what its current exposure is in**

regard to end-of-service and post-retirement benefit liabilities. Furthermore, considering that UNOPS indicates that it is in the process of developing both its pricing policy and budget guidelines, that process would need to take into consideration an allocation for end-of-service and post-retirement benefit liabilities.

644. **In paragraph 89** of the report, UNOPS agreed with the Board's recommendation that it (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals, (b) mark all UNOPS inventory items with a unique, identifiable inventory number or serial number, (c) conduct inventory counts at regular intervals and (d) ensure that valid, accurate and complete opening balances were included in the Atlas system.

645. **Comment by the Administration.** UNOPS has developed, in manual spreadsheet format, an asset register as an interim measure and plans to perform annual asset counts which will be certified by its corporate and operational divisions (no target date provided). Also, UNOPS states that, owing to funding constraints, it is unable to implement a fixed-asset register through the use of Atlas at the present stage.

646. The Board notes that the total cost of non-expendable equipment on the spreadsheet presented to it amounted to $9.7 million. The spreadsheet did not contain details of opening balances, movements and closing balances, or any indication of when these items were acquired. The spreadsheet, therefore, was not an asset register but an inventory listing. The budget allocation for 2005 regarding asset management is $35,000.

647. **In paragraph 98** of the report, UNOPS agreed with the Board's recommendation that it take immediate action to (a) perform reconciliations for all imprest, inter-office voucher and inter-fund accounts, (b) investigate and resolve all reconciling items, (c) quantify the reconciling items and projections, (d) process the resulting adjustments and (e) implement measures to prevent the occurrence of similar failures of controls, including the adequate training of staff.

648. **Comment by the Administration.** The functions of performing reconciliations of the imprest accounts were transferred from the Asia office to headquarters, and the supporting documentation for the biennium 2002-2003, needed to complete the reconciliations, had not been received at the time of the audit. As a consequence, it is estimated that the 2002-2003 reconciliations will be completed in October 2005.

649. For the year 2004, three reconciliations were required: (a) between the accounts payable ledger and the imprest cash book; (b) between the general ledger (accounts payable account) and the bank statements; and (c) between the due to/due from account on the UNOPS and UNDP general ledger. The first reconciliation between Atlas accounts payable and the imprest field cash books and bank statements has been completed and the resulting adjustments have been processed. When the Atlas general ledger becomes fully functional, the last two reconciliations, between the general ledger and bank statements and UNOPS and UNDP due to/due from accounts, will commence. For the biennium 2002-2003, delays were experienced in the transportation of source documentation between the UNOPS Asia office and New York.

650. As matter of prudence and good practice, a general ledger reserve of $2.68 million (2005 budget) and $0.7 million (2004 actual) was set aside to cover any write-offs that may arise once balance sheet reconciliations had been completed for imprest accounts, accounts receivable, fixed assets and project overruns.

651. The following measures have been put in place to avert a recurrence of the audit observations made with respect to the 2002-2003 biennium: (a) imprest accounts staff received Atlas training, imprest examination training, and imprest data entry training in March 2005; (b) training materials on imprest have been produced for field personnel; (c) a plan is being developed to roll out training to the field (subject to budget approval for travel related to the training of field personnel, which is to be included in training plan); (d) imprest policies and enforcement rules have been published on the UNOPS Intranet site; (e) a policy enforcement mission was dispatched to Afghanistan in March 2005; and (f) control procedures are in place for the review and approval of imprest activities that do not meet the guidelines.

652. **The Board confirmed that UNOPS had not reconciled the imprest, inter-office voucher and inter-fund accounts for the biennium 2002-2003. The Board notes that UNOPS performed reconciliations between the Atlas accounts payable and the imprest field cash books and bank statements for transactions processed for the year ending 31 December 2004, and the resulting adjustments were processed. Reconciliation of the imprest accounts for the 2002-2003 biennium impacts on the opening balances for 2004 and is therefore required to enable reconciliation of the 2004 balances with the general ledger.**

653. **Further comment by the Administration.** The supporting documents for the UNDP inter-office voucher accounts were located at its Asia office and were not being transferred to New York. The inter-office voucher account was used for the imprest account transactions effected by UNDP on behalf of UNOPS. The implementation of Atlas as at 1 January 2004 enabled financial systems at UNDP country offices to interface with UNOPS for the transactions captured by UNDP on behalf of UNOPS. As a result, UNOPS no longer uses the inter-office voucher account.

654. **In its report on the biennium 2002-2003, the Board noted that no supporting documentation had been provided for the inter-office voucher clearing account credit balance. As a result, the Board could not verify the validity, accuracy and completeness of the balance.**

655. **The Board notes that no reconciliations have since been performed by UNOPS for the inter-fund balances reported as it has been unable to produce a valid, accurate and complete general ledger from the time of its migration to Atlas. The Board also notes that the closing balances of the UNDP inter-fund, inter-office voucher and due to/due from accounts in the previous financial system used by UNOPS, IMIS, were transferred to the due to/due from accounts in Atlas. The Board is, therefore, not in a position to validate whether the opening balances in Atlas are valid, accurate and complete as no validation could be performed on the inter-office voucher account.**

656. **In paragraph 103** of the report, UNOPS agreed with the Board's recommendation that it (a) take immediate steps to identify all excess expenditure, (b) solicit additional budget approvals from clients to cover excess expenditure,

(c) report unfunded deficits and the impact on the financial position of UNOPS to the Management Coordination Committee and (d) evaluate controls with regard to project budgets as part of the Atlas business process analysis, to ensure that proper monthly reviews of project budgets and expenditure were completed.

657. **Comment by the Administration.** UNOPS needs to further develop its management reporting system to identify expenditures in excess of project budgets in Atlas. This process is being considered in consultation with UNDP. However, portfolio managers and regional directors conduct at regular intervals reviews to ascertain the status of project expenditure. As explained in paragraph 626 above, controls exist in Atlas to ensure that project expenditure does not exceed the funds committed by clients, which may only be overridden for the reasons provided. In its most recent budget revisions, UNOPS increased the provision for doubtful accounts to $2.8 million.

658. **The Board notes that, as at May 2005, the 2004 project budgets in Atlas for project delivery had been exceeded by $40.3 million. Any project overspending by UNOPS would be in contradiction of its financial regulation 5.5, in accordance with which UNOPS is to ensure that all expenditure for foreseen project expenditure does not exceed the funds received. UNOPS indicates that committed funds had been received from clients for the reasons given in paragraph 626 above, principally the rephasing of 2005 project budgets to 2004. The Board was not able to validate this by 20 May 2005, and is not in a position to verify statement made by UNOPS regarding the provision of $2.8 million, since the most recent budget revisions had not been approved as at May 2005. (See also the comments of the Board in paragraph 627 above.)**

659. **In paragraph 122** of the report, UNOPS agreed with the Board's reiterated recommendation that it expedite, in consultation with UNDP, the finalization of the memorandum of understanding to regulate the functions of central services provided by UNDP. Furthermore, the Board recommended that UNOPS, in consultation with UNDP, should compile and finalize the service-level agreements, clearly setting out their respective functions and responsibilities.

660. **Comment by the Administration.** Owing to resource constraints, the revision of the memorandum of understanding with UNDP and the implementation of an adequate service-level agreement are planned for the future. UNDP has issued draft service-level agreements for payroll and treasury services, which UNOPS is reviewing to ensure that functions and responsibilities, especially with regard to controls, are properly defined.

661. **The Board notes that the submitted draft service-level agreement regarding central services for the payroll function will need to be revised as it did not specify the specific control processes that UNDP is to undertake to provide UNOPS with assurance that the payroll was valid, accurate and complete. The Board considers that the absence of an adequate service-level agreement prevents UNOPS from adequately regulating the quality of the service that it receives from its service providers.**

662. **In paragraph 125** of the report, UNOPS agreed with the Board's recommendation that it, in consultation with UNDP, ensure that the Atlas system (wave 2) implementation agreement with UNDP (a) clearly defined the scope of the

agreement and cost structure and (b) limited its potential liability for consequential costs incurred by UNDP for which UNOPS was not directly responsible.

663. **Comment by the Administration.** The terms, scope and cost of the participation of UNOPS in the Atlas wave 2 implementation are being negotiated with UNDP, taking into account the Board's recommendations, the funding constraints of UNOPS and the timetable of UNDP for the implementation of wave 2.

664. **The Board notes that the costs to UNOPS for Atlas in 2004 amounted to $3.5 million and that a further $3.5 million has been allocated, in the context of its approved budget for 2005. The 2005 allocation does not include provision for the cost of the Atlas wave 2 implementation. Although UNOPS investment in Atlas is expected to increase by 50 per cent in 2005 as compared to 2003, its ability to take full advantage of Atlas has been limited. A comprehensive framework incorporating Atlas-related controls has not been developed. Furthermore, the level of service received from UNDP and the costs attributable to these services have not been adequately regulated through service-level agreements. UNOPS has not been able to produce a general ledger and it has had to develop an external revenue model spreadsheet to calculate its revenue. Furthermore, UNOPS has indicated that its general ledger will be fully operational only in September 2005.**

665. **In paragraph 132** of the report, UNOPS agreed with the Board's recommendation that it (a) enter into formal negotiations with the lessor of its office premises as soon as possible regarding consent to exceed the 25 per cent sublease limit, (b) develop a policy to manage the rental of the unutilized space and (c) perform a cost-benefit analysis of continuing with the current lease agreement.

666. **Comment by the Administration.** In informal discussions held with the lessor, the indications were that the lessor would not be willing to renegotiate the 25 per cent sublease limit restriction for non-United Nations organizations. However, as the limit does not apply to other United Nations and United Nations-related agencies, UNOPS has been able to sublease all of its unoccupied office space and has indicated that it has no office space available for subleasing. There is a high demand for its office space and it is constantly monitoring the rental market to ensure that it is able to sublease office space in the shortest possible time frame when current sublease agreements end.

667. **The Board notes that UNOPS has performed a three-year lease income forecast for subleases, projecting an average annual lease income of $1.8 million.**

668. **In paragraph 140** of the report, UNOPS agreed with the Board's recommendation that it (a) develop an ICT strategic plan, (b) consider creating an ICT steering function or committee and (c) consider the benefits of adopting international standards and best practices to be applied to its ICT environment.

669. **Comment by the Administration.** A strategy for information technology infrastructure has been formulated as part of the ICT optimization project. Furthermore, an ICT advisory board and ICT steering committee have been established to streamline the introduction of new ICT initiatives at UNOPS, and the new ICT infrastructure has complied with guidelines and industry best practice. Also, an ICT policy was drafted in May 2005 to address the risks associated with the ICT environment.

670. UNOPS has not applied international best practice standards (ISO 9001) to its ICT environment; instead, through its interaction with other agencies, its assessment is that it has adopted industry best practice. UNOPS indicates that the firewalls that have been implemented are appropriate in terms of international best practice. The implementation of the ICT strategic plan is dependent on the overall corporate strategy action plan, as the future structure of UNOPS will determine the structure and resource requirements of the ICT environment.

671. **The Board notes that, although UNOPS has formulated an ICT strategic plan, it has not yet been implemented. The Board is of the view that an internal audit presence on the ICT committees, even on an ad hoc basis, would provide important insight in regard to ICT operations, including the consideration of adequate internal controls for new systems or changes to systems.**

672. **The Board has received a copy of the proposed policy document. The document is yet to be formally approved by the Executive Director for implementation. The Board will confirm the implementation of the strategy and the effectiveness of the measures contained therein during its next audit visit.**

673. **In paragraph 169** of the report, UNOPS agreed with the Board's recommendation that it, considering that it is responsible for its own general ledger, in conjunction with UNDP, intensify its efforts to resolve the limitations of the general ledger module as a matter of priority.

674. **Comment by the Administration.** The UNOPS general ledger is operational and will be fully functional and populated with data from source modules and systems by September 2005.

675. UNOPS indicates that human and system errors were responsible for the inaccurate, incomplete and invalid data reflected in the general ledger. As a result, resources need to be expended on data-cleansing tasks in order to ensure integrity.

676. **The Board notes that the main challenge for UNOPS in generating an adequate general ledger is data integrity.**

677. **UNOPS 2005 year-to-date results will need to be verified before they can be entered into the general ledger. As a result of the challenges faced by UNOPS and the resources required to address the problems with its general ledger module, there are few resources available to address other initiatives, such as the development of a comprehensive internal control framework.**

678. **UNOPS plans to sign off its 2004 financial statements by September 2005. As at 14 April 2005, its preliminary statement of revenue and expenditures reflected a deficit of $11.3 million. The Board has not audited those financial statements.**

679. **The Board recommends that UNOPS, in conjunction with UNDP, assign priority to identifying the weaknesses in the Atlas module that contribute to systemic errors. The Board also recommends that UNOPS consider, within its resource constraints, the establishment of an accountability framework so that control procedures are performed to ensure that data are valid, accurate and complete.**

680. **In paragraph 185** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception and monitoring reports.

681. **Comment by the Administration.** UNOPS audit exception reports are being developed in conjunction with UNDP and will be rolled out in the second and third quarters of 2005 after completion of the statutory reports for the year-end closing. UNOPS indicates that the other agencies have developed their own reports and that consultations with the various agencies will be held to determine common reports and needs.

682. **The Board notes that UNOPS developed several query reports to interrogate data in Atlas with the aim of identifying data errors. These reports were used in the data-cleansing task performed on the data entered in Atlas for the year ended 31 December 2004. However, these query scripts were only used to interrogate the accounts payable and purchase order modules. Consequently, errors that may exist in other modules would not have been identified. Furthermore, these reports were generated only for the 2004 data-cleansing exercise and no reports were generated on the data for 2005.**

683. **In paragraph 204** of the report, UNOPS agreed with the Board's recommendation that it perform a cost-benefit analysis for the recommendations made by the strategic advisory groups in order for the change management initiatives to be measured against a substantiated budget and to track the value generated by the change management process.

684. **Comment by the Administration.** For increased effectiveness and efficiency, UNOPS will use net present value or internal rate of return to determine the expected value of the investment. Some investments, however, are made for the improvement of infrastructure; in these cases, a quantifiable return is difficult to estimate — the investment could be required to meet contractual obligations or to support effective and efficient business operations and, as such, would generally not generate a quantifiable return. The transformation programme initiatives were primarily infrastructure projects. Instead of quantifying the return, UNOPS has developed a qualitative business case model, based on a series of detailed questions to be answered by the initiative leaders, to monitor the progress of each audit observation and ultimately to ensure complete compliance. UNOPS has also developed a financial model to monitor year-to-date actual expenditure versus budgeted expenditure by initiative. UNOPS was to begin the analysis in May 2005. Finally, UNOPS also monitors the weekly activities of each initiative to track performance against scope, deliverables and timing and to address issues identified by the executive sponsors and/or initiative leaders, and reports to the steering committee of the transformation programme.

685. **The Board notes that UNOPS restructured its operations in 2004 in response to recommendations made by the strategic advisory groups. A job fair was held, divisions were reorganized, and the Asia office was moved from Kuala Lumpur to Bangkok. The decision was primarily to realign the UNOPS staff establishment of the time with the revised organizational structure so as to remove redundant posts and staff. The cost-benefit analyses conducted in regard to those decisions were based mainly on qualitative aspects. Benefits were translated as gains from cost reductions. As a result of the job fair, UNOPS provided to the Board of Auditors a list of staff who were separated**

and the actual costs of the compensation paid them. The information provided to the Board was focused on set-up and moving costs and did not include calculations in respect of potential savings.

686. **In paragraph 214** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP and UNFPA, intensify its efforts to finalize the fraud-prevention strategy and fraud policy statement.

687. **Comment by the Administration.** A fraud policy statement has been drafted and will be reviewed by the recently established Risk Management and Oversight Committee before being issued and communicated to staff. The statement covers procedures for whistleblowers. The Risk Management and Oversight Committee will be the executive sponsor of the policy and, once the Committee is functioning, the process of reviewing, approving and implementing the policy will be made possible.

688. **The Board notes that UNOPS has opted not to collaborate with UNDP and has prepared its own fraud policy. However, UNOPS is considering a partnership with UNDP in respect of implementing a fraud hotline. The Board also notes that the internal processes will need to be completed before the fraud policy can be implemented. Consequently, until such time as the fraud policy is approved and implemented, the risk of fraud going undetected will continue to increase.**

689. **In paragraph 218** of the report, UNOPS agreed with the Board's recommendation that it (a) amend, in consultation with UNDP, the fraud-prevention policy to include reference to UNOPS (or, alternatively, a separate addendum prepared for formal approval by UNOPS), (b) make the draft policy available for comment within UNOPS prior to finalization and (c) arrange for fraud investigations in areas where the risk of fraud was assessed to be high.

690. **Comment by the Administration.** See paragraph 689 above.

3. Recommendations under implementation but not yet validated by the Board

691. **In paragraph 42** of the report, UNOPS agreed with the Board's reiterated recommendation that it continue to review its medium-term strategy in a comprehensive manner, the review to include such elements as an analysis of the variables related to business from UNDP, with a view to aligning its project delivery approach. The Board also recommended that UNOPS fully explore all potential business acquisition possibilities and alternate sources of funding, given the changes in mandate effective January 2004.

692. **Comment by the Administration.** UNOPS is in the process of preparing an action plan for sustainability, which is to be presented to the Executive Board in September 2005. UNOPS states that it will need to perform further analyses of its client base in order to determine profitability and future potential. Once UNOPS has conducted its analyses, it will probably need to restructure, but this decision will only be taken in the next biennium and after the action plan has been completed and submitted to the Executive Board for approval.

693. **In paragraph 63** of the report, UNOPS agreed with the Board's recommendation that it (a) monitor and track all variables affecting the going-

concern assumptions and (b) agree with the Executive Board on a time frame for the rebuilding of the operational reserve.

694. **Comment by the Administration.** The action plan to be presented to the Executive Board in September 2005 (see para. 694 above) will outline the approach and time frame for rebuilding the operational reserve.

695. **The Board considers that the ability to manage and monitor operations and to assist in making informed strategic decisions depends on the availability of information that is accurate, relevant, reliable and timely. Although the Board recognizes the progress made by UNOPS in regard to the production of management information, the task of generating information requires significant effort.**

696. **Data integrity at UNOPS remains a significant challenge. The Board notes that, as at May 2005, UNOPS had not prepared cash flow forecasts or forecasts of future activity extending beyond 12 months. It also had not prepared forecasts to monitor the cumulative effect of the UNOPS net result on its operational reserve.**

697. **The Board recommends that UNOPS, as a matter of urgency, conduct a detailed analysis of all variables affecting the going-concern assumption and prepared projections to ascertain the current status of the operational reserve.**

698. **In paragraph 117** of the report, UNOPS agreed with the Board's recommendations that it (a) consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues (in this regard, UNOPS should revert to paragraph 6 of General Assembly resolution 57/278 A, since better disclosure would be a step towards taking a proactive approach to the review requested by the General Assembly); (b) continue to improve the presentation and disclosure of financial statements; and (c) disseminate any key improvements to other United Nations organizations.

699. **Comment by the Administration.** UNOPS participates in the meetings of the High-level Committee on Management and of a working group established to assess this matter. Any developments in this regard will be taken into consideration in its accounts for the biennium ending 31 December 2005.

700. **In paragraph 193** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, especially those classified as critical.

701. **Comment by the Administration.** As part of the Atlas change control management process, all outstanding critical change requests have been reviewed and recategorized, based on new input from the user community. Since July 2004, all enhancements to the Atlas system have been managed in accordance with the Atlas change management framework.

4. Recommendations not implemented

702. **In paragraph 80** of the report, UNOPS agreed with the Board's recommendation that it (a) reconcile the payroll with the general ledger on a regular basis to ensure that all payroll costs were correctly allocated, (b) certify the

reconciliations at an appropriate level of seniority as proof of review and (c) make specific year-end and biennium-end closing arrangements to validate differences.

703. **Comment by the Administration.** The UNOPS payroll group is responsible for the reconciliation and is in discussions with UNDP regarding this matter. UNOPS recognizes that the current draft service-level agreement with UNDP does not adequately cover all of the controls undertaken by UNDP, which should ensure the validity, completeness and accuracy of data provided by it to UNOPS. Therefore, it is the intention of UNOPS, contingent upon resource constraints and the agreement of UNDP, to bring the payroll-only service-level agreements up to date and to include in them a certification process which will confirm that such controls have been performed. As an additional check to UNDP reconciliations, UNOPS will undertake sense checks on the general ledger once the payroll interface has been developed. The lack of an adequate internal control environment is primarily due to resource constraints.

704. **The Board notes that, by April 2005, UNOPS had not performed payroll reconciliations to verify the validity, accuracy and completeness of the payroll transactions in its general ledger. As previously reported by the Board,[16] UNOPS was unable to provide it with a breakdown of common staff costs amounting to $15.2 million, and the Board was unable to obtain assurance regarding 81 per cent of its sample pertaining to separation costs.**

705. **In paragraph 145** of the report, UNOPS agreed with the Board's recommendation that UNOPS internal audit verify the validity and accuracy of journals posted as a result of the data-cleansing exercise.

706. **Comment by the Administration.** Given the other priorities of the internal audit section, this task has not been included in its workplan for 2005. The monitoring and control processes to verify journal entries for validity, accuracy and completeness are ensured through authorization of journals posted, the reconciliation of balance sheet accounts and analytical reviews performed on account balances.

707. **In paragraph 151** of the report, UNOPS agreed with the Board's recommendation that it, in consultation with UNDP and UNFPA, establish a service-level agreement with the Atlas service centres, identifying minimum standard requirements regarding the number of cases handled and that the time taken to resolve problem cases should be established.

708. **Comment by the Administration.** Owing to resource constraints, UNOPS has been unable to engage with UNDP in regard to this matter.

709. **In paragraph 165** of the report, UNOPS agreed with the Board's recommendation that it compile, approve and disseminate to all staff an overall internal control framework that covers all modules of the Atlas system as a matter of priority.

710. **Comment by the Administration.** UNOPS will refer this matter to its recently created Risk Management and Oversight Committee. It is employing the report on the internal control framework of the Committee of Sponsoring

[16] Ibid., para. 78.

Organizations of the Treadway Commission as a basis for establishing its own internal control framework.

711. **The Board notes that UNOPS has not developed a comprehensive internal control framework that covers all modules of Atlas. UNOPS has experienced difficulties in performing its financial year-end closure owing to issues of data integrity. As a result, significant effort has been expended on data cleansing. The Board considers that the implementation of a control framework would have assisted UNOPS in limiting the extent of the data integrity issues. It notes that the terms of reference of the Risk Management and Internal Oversight Committee have been signed by the Executive Director and were effective 6 May 2005.**

712. **In paragraph 173** of the report, UNOPS agreed with the Board's recommendation that it (a) include appropriate terms and conditions addressing bank reconciliations in the service-level agreement with UNDP for treasury services and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.

713. **Comment by the Administration.** The treasury service-level agreement with UNDP is being reviewed but UNOPS considers that it was the responsibility of UNDP to ensure that bank reconciliations are performed for the bank accounts under its control.

714. **The Board is of the view that, although UNDP performs the treasury function for UNOPS, the latter is ultimately responsible for ensuring that bank reconciliations are performed and that suitable monitoring and control procedures are implemented to provide it with assurance regarding the validity, accuracy and completeness of transactions performed on its behalf. The Board notes that UNOPS has not implemented measures to effectively monitor cash transactions processed by UNDP on its behalf. The necessity to implement control and monitoring procedures is further heightened by the fact that the UNOPS general ledger was not fully functional as at May 2005. The Board recommends that UNOPS perform reviews on the reconciliations conducted by UNDP.**

715. **In paragraph 177** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after a payment voucher has been approved.

716. **Comment by the Administration.** UNOPS considers that this function, which allows changes to be made to payee details, is necessary in respect of its imprest system: a generic purchase order is generated to authorize imprest account holders to make use of the funds, then, as the funds are used, individual purchase orders are processed for disbursements on the basis of the approved generic purchase order. This facility in Atlas is necessary to effect the imprest account replenishments to which multiple purchase orders are matched when imprest expenditure vouchers are processed. Compensating controls are implemented, whereby regular reviews of the unmatched items report are performed.

717. **The Board notes that UNOPS has developed an unmatched item query report to assist in identifying errors during the data-cleansing process. UNOPS did not, however, perform data cleansing on 2005 financial data; as a result, the**

unmatched items report was not generated and consequently the control could not be exercised.

718. **In paragraph 188** of the report, UNOPS agreed with the Board's recommendation that it, in conjunction with UNDP, reconsider activating the audit trail function, taking into account the beneficial effect it will have on the operations of the Atlas system.

719. **Comment by the Administration.** Activation of the full audit trail will result in a severe degradation of system performance. Every data table maintains a record of the person raising the transaction. UNDP, UNFPA and UNOPS are of the view that, given performance issues, there is sufficient control and will monitor the situation.

720. **The Board notes that UNOPS has not implemented adequate controls in the absence of an audit trail and that the risk of errors and irregularities going undetected has therefore increased. Given that data integrity is a significant risk at UNOPS, the implementation of an audit trail as a control tool could assist in identifying data errors and irregularities in a timely manner. However, the Board recognizes the concerns expressed regarding the impact on system performance and will therefore follow up this matter during its next audit of UNDP, UNFPA and UNOPS.**

M. International Criminal Tribunal for the Prosecution of Persons Responsible for Genocide and Other Serious Violations of International Humanitarian Law Committed in the Territory of Rwanda and Rwandan Citizens Responsible for Genocide and Other Such Violations Committed in the Territory of Neighbouring States between 1 January and 31 December 1994

721. Of the 26 recommendations made by the Board of Auditors with respect to the accounts of the International Criminal Tribunal for Rwanda,[17] the Tribunal has implemented 9 (35 per cent), while 16 (61 per cent) are under implementation and 1 (4 per cent) has not been implemented.

1. Recommendations considered implemented but not yet validated by the Board

722. **In paragraph 61** of its report, the Board recommended that the Tribunal monitor and evaluate the impact of the new decisions taken regarding improvements in the legal aid system.

723. **Comment by the Administration.** Strict management and control of the legal aid system has led to strikes by defence counsel. Of late, defence counsel have threatened not to come for scheduled hearings if the Tribunal did not relax implementation of the provisions of General Assembly resolutions 57/289 of 20 December 2002 and 58/253 of 23 December 2003. The system has begun to show some signs of improvement as a result of the efforts of the Tribunal to explain the system to the defence lawyers.

[17] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5K* (A/59/5/Add.11), chap. II.

724. **In paragraph 64** of its report, the Board recommended that the Tribunal continue its efforts to verify the financial position of the accused through improved communication with Member States.

725. **Comment by the Administration.** The financial investigator is in place and the in-house investigations initiated in 2004 have been completed. Information has been requested from the host Government and from locations at which the family of the accused is alleged to have assets. However, such information has not been forthcoming. The active cooperation of Member States is crucial to the successful completion of investigations.

726. **In paragraph 85** of its report, the Board recommended that the Tribunal ensure that the Language Services Section and the Office of the Prosecutor continue to work together to monitor the nature of requests so as to prevent the translation of documents that had no probative value.

727. **Comment of the Administration.** The Office of the Prosecutor and the Language Services Section are meeting for this purpose at two-weekly intervals. The Office has scanned the list of documents provided and identified the documents not of probative value. The Office has hired a language assistant to assist in this process.

728. **In paragraph 93** of its report, the Board recommended that the Tribunal consider ways to improve the efficiency and effectiveness of court management, including evaluating new technology on the basis of cost-benefit analyses.

729. **Comment by the Administration.** After reviewing the costs and benefits of real time and deferred real time, the best option is for the implementation of the deferred real time, which is less costly and is expected to yield results which can contribute to furthering the completion strategy adopted by the Tribunal. However, the additional resources needed to implement the deferred real-time system have not yet been allocated to the Tribunal.

2. Recommendations under implementation, as validated by the Board

730. **In paragraph 26** of its report, the Board recommended that the Tribunal: (a) comply with the United Nations system accounting standards by not netting accounts payable off against accounts receivable and vice versa; and (b) improve the financial application system to prevent the netting off of debit and credit amounts.

731. **Comment by the Administration.** The Finance Section has instituted measures to ensure that the accounts receivable and accounts payable are separated and posted in the respective accounts when first entering transactions in the accounting system. In addition, a comprehensive review of the receivable and payable accounts is being conducted to prevent netting off of the accounts payable against the accounts receivable and vice versa. The system analyst at United Nations Headquarters has recommended and effected changes in the design and layout of the reporting module (i.e., the ageing report) which will have the debits and credits separated so as to avoid the netting-off effects. With the change in layout, the system is able to produce separate debit and credit reports of ageing. Thus far, the review of current accounts has been completed, while the old outstanding accounts have only partially been completed, owing to the staff shortage. The Tribunal expects to complete the process by the last quarter of 2005.

732. **In paragraph 33** of its report, the Board recommended that the Tribunal continue to improve and maintain adequate control over non-expendable equipment.

733. **Comment by the Administration.** Steps have been taken to implement the recommendation. These included the training of various asset managers early in 2004 in the field assets control system. Since June 2004, bar code labels are assigned physically to all active non-expendable assets, replacing the old decal numbers, and such records are updated in the field assets control system to reflect the change. The Property Control and Inventory Unit is in the process of conducting physical verification of non-expendable assets and updating the records in the control system.

734. **In paragraph 46** of the report, the Tribunal agreed with the Board's recommendation that it: (a) continue to monitor progress in terms of the completion strategy and take all necessary steps to complete its planned activities on time; (b) prepare a completion strategy for the Appeals Chamber in consultation with the International Tribunal for the Former Yugoslavia; and (c) include in its completion strategy a process to obtain donor support for the purpose of addressing factors that might limit the ability of the Tribunal to hand cases over to national judicial systems. The Board considered that the Tribunal could also seek assistance from the United Nations system to create partnerships for obtaining donor support in order to implement judicial reforms in Member States.

735. **Comment by the Administration.** The completion strategy has been compiled and is being reviewed and monitored every six months. Reports are made at regular intervals by the President of the Tribunal to the Security Council. The handing over of cases to the national judicial system is under way.

736. **In paragraph 50** of its report, the Board recommended that the Tribunal intensify its efforts to gain the cooperation of States to arrest all indictees at large and seek the assistance of the international community to place additional pressure on uncooperative States.

737. **Comment by the Administration.** The Prosecutor has spoken to the African Group of ambassadors to the United Nations, the leadership of the African Union and officials of a number of African States to gain the cooperation of their Governments. The Prosecutor is continuing to seek audiences with the heads of State of the countries in which some of the indicted fugitives are known to have resided. Following further discussions and consultations with the aforementioned parties, the Tribunal is planning to report to the Security Council by June 2005 on this matter.

738. **In paragraph 82** of its report, the Board encouraged the Tribunal to continue its efforts to fill reviser posts that had been advertised.

739. **Comment by the Administration.** Efforts are being made in this regard and the recruitment process for the positions of reviser is ongoing.

740. **In paragraph 108** of its report, the Board recommended that the Tribunal evaluate the reasons for the excessive lead times at the various stages of the procurement cycle and take measures to decrease them to a reasonable level.

741. **Comment by the Administration.** The lead times have been reduced from an average of 116 days to 55 days, according to the records in Mercury, the field procurement management system.

742. **During its interim audit in April 2005, the Board noted that there were still delays in excess of 100 days in both the time between the order dates and the dates that purchase orders were approved, and the time between the requisition dates and the requisition approval dates.**

743. **In paragraph 114** of its report, the Board reiterated its previous recommendation that the Tribunal: (a) conduct reference checks on all new eligible candidates; and (b) maintain accurate and complete records of such reference checks.

744. **Comment by the Administration.** The implementation of the recommendation is ongoing.

745. **In paragraph 116** of the report, the Tribunal agreed with the Board's recommendation to take steps to use the general temporary assistance funds in accordance with the purposes for which they were intended.

746. **Comment by the Administration.** Staff members who were initially recruited against general temporary assistance funds are gradually being placed against established posts, wherever possible. The availability of a post and good performance are two factors taken into account in this exercise.

747. **During its interim audit in April 2005, the Board noted that, owing to the previous freeze on employment, general temporary assistant positions were being used continuously to supplement fixed-term positions but that some of the movements from general temporary to fixed-term positions were not following the established procedures. The Board also noted that some positions were being filled without complying with the requirements of rule 104.14, which requires staff members to undergo a prescribed test before appointment.**

748. **In paragraph 131** of its report, the Board recommended that the Tribunal: (a) expedite the process of approving the disaster recovery plan; (b) make staff fully aware of the contents of the plan and monitor full compliance; and (c) retain a copy of the plan off site and incorporate it into the change management arrangements to ensure that the plan was routinely updated when hardware and software changes occurred.

749. **Comment by the Administration.** A disaster recovery plan has been developed. The plan is still to be submitted to the information technology steering committee for approval. Once endorsed by the committee, the plan will be presented to management for approval.

750. **In paragraph 134** of its report, the Board recommended that the Tribunal develop and approve a fraud-prevention strategy in coordination with the administrations of the United Nations and the other funds and programmes.

751. **Comment by the Administration.** The Tribunal has adopted various measures to implement the recommendation of the Board. A working group on a crisis prevention strategy was established by the Administration in January 2004 to strengthen the framework of internal management practices and control in three significant areas of risk (human resources, finance and asset management). The working group, which is composed of junior and mid-level professionals, worked under the guidance of the Chief Administrative Officer and the internal auditor. It completed its work in April 2004 and presented a report identifying the areas of weaknesses and proposing measures to prevent a management crisis in the areas

mentioned above. The report was approved by the Registrar and conveyed to the managers concerned on 26 May 2004. Other measures will be taken in coordination with United Nations Headquarters.

752. **The Board notes that, although some steps have been taken to identify mechanisms to deal with fraud, a fraud-prevention strategy was yet to be compiled as at 25 May 2005.**

3. Recommendations under implementation but not yet validated by the Board

753. **In paragraph 30** of its report, the Board recommended that the Tribunal, in conjunction with the United Nations Secretariat, review the funding mechanism and targets for end-of-service and post-retirement benefit liabilities.

754. **Comment by the Administration.** In preparing the budget for the biennium 2004-2005, the Tribunal discussed with the Office of Programme Planning, Budget and Accounts the modalities of funding mechanisms which would cater for such liabilities. It is expected that the budget for the biennium 2006-2007 will identify a number of issues relating to the termination of operations of the Tribunal. With respect to the funding of after-service health insurance, a report which is being finalized will contain proposals that will provide for the commencement of accruals and for initiating the process to fund such liabilities. Once the report has been issued and considered by the General Assembly, the Administration will be in a position to take action, in accordance with the decisions of the General Assembly.

755. **In paragraph 70** of its report, the Board recommended that the Tribunal: (a) continue to monitor the submission of invoices by defence counsel using the new software; and (b) evaluate the lump-sum system of legal aid at the International Tribunal for the Former Yugoslavia in order to ascertain whether such a system could assist in limiting the increasing cost of legal aid.

756. **Comment by the Administration.** The database needed for this function is being updated and invoices are being monitored. The lump-sum system of payment under the legal aid programme has been evaluated by both tribunals. A draft proposal has been sent to the Registrar for consideration and approval, in consultation with the President of the Tribunal. The Tribunal is holding discussions with the International Tribunal for the Former Yugos'avia prior to taking a final decision regarding the lump-sum system.

757. **In paragraph 95** of its report, the Board recommended that the Tribunal: (a) in conjunction with the Office of Internal Oversight Services, set up an implementation plan to address the recommendations of the Office, including target dates; and (b) monitor progress with regard to the implementation of the recommendations.

758. **Comment by the Administration.** The Tribunal held discussions with the local and Nairobi offices of the Office of Internal Oversight Services in September 2004 to set up the plan, which they will monitor throughout 2005.

759. **In paragraph 100** of the report, the Tribunal agreed with the Board's recommendation that it: (a) continue to make progress with regard to the implementation of results-based budgeting by introducing more stringent central monitoring mechanisms; and (b) further develop and update the workload indicators to align with results-based budgeting and the exit/completion strategy.

760. **Comment by the Administration.** An online database system has been designed to compile and generate, on a quarterly basis, the workload indicators. This database comprises the initial phase of the envisaged centralized monitoring and tracking system aimed at aligning and linking workload indicators, indicators of achievement and results-based budgeting with the completion strategy.

761. **In paragraph 105** of its report, the Board recommended that the Tribunal: (a) effectively monitor and track requirements, the solicitations of bids or proposals and the awarding of contracts in order to allow both the supplier and the Tribunal sufficient time to finalize, conclude and sign both contracts and their extensions effectively and in a timely manner; (b) inform suppliers that it cannot accept and would not be liable for any goods or services delivered without a signed procurement contract in place; and (c) formalize the agreement with the Tanzanian Police and Prison Services, in compliance with United Nations directives.

762. **Comment by the Administration.** The Government of the United Republic of Tanzania agreed in September 2004 to the payment of $10 per day per officer to itself rather than directly to the prison officers. The United Nations Detention Facility agreement was amended accordingly to reflect that position. The agreement was forwarded to the Office of Legal Affairs for approval in December 2004. Upon review of the negotiated draft agreement, the Office of Legal Affairs instructed the Tribunal to incorporate additional provisions and to renegotiate some aspects of the agreement. The renegotiation is ongoing, pending feedback from the Government.

763. **In paragraph 122** of the report, the Tribunal agreed with the Board's recommendation that it continue its efforts to reduce the vacancy rates, with special emphasis on the Office of the Prosecutor.

764. **Comment by the Administration.** Efforts to reduce the vacancy rate are and should be ongoing without any particular time breaks. Any timetable for specific action should be understood in this context. Additional recruitment has been frozen owing to the non-payment of assessments by some Member States. The freeze has had a negative impact on efforts to reduce vacancy rates. Nevertheless, the Tribunal will review the vacancy rates on a regular basis. In that regard, rosters of qualified candidates will continue to be built in order to accelerate the process of filling vacant posts. Vacancy announcements will be issued for all vacant non-roster posts.

765. **The Board notes that a vacancy rate of 13 per cent (137 vacant positions) existed as at 15 April 2005 and that some of these positions had been vacant for more than two years.**

4. Recommendation not implemented

766. **In paragraph 129** of the report, the Tribunal agreed with the Board's recommendation that it develop, approve and update on a continuous basis an ICT strategic plan to provide for changing circumstances in respect of the requirements of the Tribunal.

767. **Comment by the Administration.** The Secretary-General's overall ICT strategic plan has been in place since January 2004. However, the Administration will develop a customized strategic plan for the Tribunal before the next reporting cycle, which should be implemented by the end of September 2005.

N. International Tribunal for the Prosecution of Persons Responsible for Serious Violations of International Humanitarian Law Committed in the Territory of the Former Yugoslavia since 1991

768. Of the 22 recommendations made by the Board of Auditors with respect to the accounts of the International Tribunal for the Former Yugoslavia for the biennium 2002-2003,[18] 17 (77 per cent) have been implemented, while 4 (18 per cent) are under implementation and 1 (5 per cent) has not been implemented.

1. Recommendations under implementation, as validated by the Board

769. **In paragraph 26** of its report, the Board expressed its concern about the level of reserves and the ability of the Tribunal to cover its liabilities for end-of-service and post-retirement benefits under the present situation. The Tribunal agreed with the Board's recommendation that it liaise with United Nations Headquarters to account for the liability related to judges' pensions and to plan for the transfer of pension commitments to a permanent entity upon the termination of the Tribunal.

770. **Comment by the Administration.** The Tribunal agrees with the Board's recommendation. The issues were raised and discussed in meetings held with the Office of Programme Planning, Budget and Accounts during 2004. The Tribunal is awaiting guidance from the Controller as to whether to include this issue in the budget proposal for the biennium 2006-2007. The Tribunal will continue its discussions with the Office.

771. **In paragraph 58** of the report, the Tribunal agreed with the Board's recommendations that it (a) finalize the annex to the memorandum of understanding setting out the services to be shared and invoiced within the United Nations House in Sarajevo; (b) endeavour to have the building's management transferred to another entity before the Tribunal closed its Sarajevo office; and (c) continue to liaise with United Nations Headquarters and other international entities to improve the building's occupancy rate.

772. **Comment by the Administration.** Discussions are continuing in regard to the building's occupancy.

773. **In paragraph 69** of the report, the Tribunal agreed with the Board's recommendation that it reinforce its monitoring of training activities.

774. **In paragraph 74** of its report, the Board, while commending the Tribunal for action taken in regard to external corruption and fraud risks, recommended that it develop a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, furthering its recent coordination with the United Nations Administration in order to obtain the benefit of best practices.

775. **Comment by the Administration.** The Tribunal has completed training for the individuals responsible for requisition in the procurement and contractual management processes. The Tribunal continues to follow up with the Department of Management regarding anti-fraud training programmes and is awaiting its advice.

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[18] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5L* (A/59/5/Add.12), chap. II.

2. Recommendation not implemented

776. **In paragraph 62** of the report, the Tribunal agreed with the Board's recommendation that it explore, with the United Nations Secretariat, the possibility of extending the medical standards for staff members to candidates for judgeship, which was a non-United Nations staff position.

777. **Comment by the Administration.** The Tribunal has no influence over the selection process by which its judges are nominated and elected by the General Assembly.

778. **The Board draws the attention of the General Assembly to this matter.**

O. United Nations Joint Staff Pension Fund

779. Of the 23 recommendations made by the Board of Auditors with respect to the accounts of the United Nations Joint Staff Pension Fund for the biennium 2002-2003,[19] the Pension Fund has implemented 7 (30 per cent), while 10 (44 per cent) are under implementation and 6 (26 per cent) have not been implemented. The United Nations Secretariat, not the Fund, is responsible for 3 of the recommendations under implementation and 1 of those not implemented.

1. Recommendations under implementation, as validated by the Board

780. **In paragraph 33** of the report, the Pension Fund management agreed with the Board's recommendation that it review its accounting organization and staffing table in order to implement sound accounting procedures, with a view to, notably, (a) securing a safe validation process for book entries under the sole authority of the Accounts Unit and (b) introducing a clear and effective segregation of duties.

781. **Comment by the Administration.** As regards item (a) above, the Pension Fund will be implementing the requested changes in conjunction with the finalization of the accounting manual by June 2005. As regards item (b), which requires staffing enhancement, proposals should be included in the budget for the biennium 2006-2007.

782. **In paragraph 35** of the report, the Fund agreed with the Board's recommendation that it update its accounting manual.

783. **Comment by the Administration.** The Fund expects to finalize its accounting manual by June 2005.

784. **In paragraph 51** of its report, the Board reiterated its recommendation that the Fund take appropriate steps to issue contribution reconciliation statements in a timely manner and further develop its proactive strategy towards the organizations for the clearing of receivables.

785. **Comment by the Administration.** The Fund states that all annual contribution reconciliations will be updated in 2005 for balances as at 31 December 2004. The Fund has focused its communication efforts to clear receivables on the two organizations mainly concerned (UNICEF and UNDP).

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[19] See *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 9* (A/59/9), annex XI.

786. **In paragraph 54** of its report, the Board recommended that the Fund further request the United Nations Secretariat to liquidate its cost-sharing obligations, and seek a new procedure to account for cost-sharing arrangements.

787. **Comment by the Administration.** The liquidation by the Secretariat of cost-sharing obligations with regard to the previous biennium has not yet been obtained, pending the definition of new financial arrangements with the United Nations. Work to this end is ongoing.

788. **In paragraph 58** of its report, the Board encouraged the Pension Fund to strengthen controls of the accounting function and the reporting of investment activity.

789. **Comment by the Administration.** As at March 2005, the Fund was evaluating responses from potential candidates to a request for proposal for a global custodian acting also as a master record keeper. Potential candidates are required to provide proper controls and enhanced reporting capabilities to the Fund and to ensure that computerized processes are employed to report investment activity and to incorporate analytical capabilities.

790. **In paragraph 99** of its report, the Board recommended that the Pension Fund request that participating organizations regularly update the list of approving officers.

791. **Comment by the Administration.** The Fund's management indicates that the lists for United Nations entities and the other member organizations are periodically updated and that efforts are continuing in regard to peacekeeping operations.

792. **In paragraph 122** of the report of the Board, the Office of Internal Oversight Services agreed with its recommendation that the Office (a) continue to improve its auditor staffing and skills and (b) utilize outsourcing specialists in fields such as investment management.

793. **Comment by the Administration.** The Office of Internal Oversight Services has recruited a new chief of section who has experience in financial services and pension fund issues, and is in the process of recruiting a pension fund audit specialist. The Office is finalizing a contract with an external consultant to undertake a global risk assessment of the United Nations Joint Staff Pension Fund.

794. **In paragraph 129** of its report, the Board recommended that the Pension Fund consider establishing an audit committee, taking into account paragraph 6 of General Assembly resolution 57/278 A, on the examination of governance structures, principles and accountability throughout the United Nations system.

795. **Comment by the Administration.** The secretariat of the Fund has submitted to the Standing Committee a proposal for the establishment of an audit committee. A draft proposal has been circulated to staff pension committees.

796. **In paragraph 139** of the report, the Office of Internal Oversight Services and the Pension Fund agreed with the Board's recommendation that (a) the Office of Internal Oversight Services discuss the internal audit workplan and any major changes to it with the Representative of the Secretary-General and the Fund's Chief Executive Officer; and (b) the plan be approved according to a procedure to be agreed upon in the forthcoming internal audit charter to be signed by both parties.

797. **Comment by the Administration.** An internal audit workplan was presented to the Fund's Chief Executive Officer and the Representative of the Secretary-General in February and March 2005. The Office of Internal Oversight Services will prepare a provisional audit workplan for the biennium 2006-2007 on the basis of the results of the global risk assessment and will submit it to management for review before its finalization.

798. **In paragraph 142** of the report, the Office of Internal Oversight Services and the Pension Fund agreed with the Board's recommendation that the Office of Internal Oversight Services reduce its audit cycle time through improvements in the accuracy of its initial budget time projections and through an appropriate management of time during the cycle.

799. **Comment by the Administration.** The Office of Internal Oversight Services has intensified its monitoring of the audit workplan, with meetings being convened weekly to review the progress of assignments in accordance with the plan.

2. Recommendations not implemented

800. **In paragraph 38** of the report, the Pension Fund agreed with the Board's recommendation that it use the best practices of other funds as a benchmark in accounting for pension contributions.

801. **Comment by the Administration.** The Pension Fund indicates that it is looking for a comparable pension fund and will review the practices of other pension funds.

802. **The Board has received no evidence that a successful search had been conducted, and notes the delay in implementing the recommendation.**

803. **In paragraph 42** of its report, the Board reiterated its recommendation that the Fund (a) implement a monthly reconciliation of the payments of contributions to enhance payment recovery and introduce full accrual accounting and (b) launch a United Nations system-wide initiative to that effect.

804. **Comment by the Administration.** The recommendation has not been implemented because the Pension Board, at its fifty-second session in July 2004, did not accept either of the above-mentioned solutions. According to the Fund, participating organizations are not in a position to provide it with accurate, detailed data on a monthly basis.

805. **The Board draws the attention of the Secretary-General to the desirability of adopting an inter-agency approach to this issue in order to achieve a timely reconciliation of monthly contribution payments.**

806. **In paragraph 46** of its report, the Board recommended that the Fund continue to invite all participating organizations to consider the feasibility of accounting for contributions on an accrual basis and by calendar year.

807. **Comment by the Administration.** The recommendation has not been implemented because the Pension Board, at its fifty-second session in July 2004, did not accept accrual accounting for contributions. Management reiterates that the Fund cannot intervene in the accounting practices of member organizations to enforce accrual accounting.

808. **The Board draws the attention of the Secretary-General to the desirability of adopting an inter-agency approach to this issue in the context of the ongoing review of the United Nations system accounting standards.**

809. **In paragraph 80** of its report, the Board recommended that the United Nations consider appropriate means to prevent the recurrence of vacancies in key senior management positions.

810. **Comment by the Administration.** The Administration will endeavour to implement this recommendation.

811. **The Board notes that such a case has occurred in 2005, involving the human resources and recruitment management of the Organization. This creates a material risk in regard to the proper discharge of fiduciary duties of the Secretary-General.**

812. **In paragraph 109** of its report, the Board recommended, as a matter of urgency, that the United Nations Secretariat review the lessons to be learned from deficient facilities management in relation to the information technology operations of the Fund.

813. **Comment by the Administration.** The Pension Fund indicates that this is not within its remit but is incumbent upon the United Nations Secretariat.

814. **The United Nations Secretariat has not implemented the recommendation. The Board therefore reiterates its recommendation.**

815. **In paragraph 113** of its report, the Board recommended that the Pension Fund establish an ethics compliance officer function.

816. **Comment by the Administration.** The recommendation has not been implemented as a post of compliance officer was not requested in the budget for the 2004-2005 biennium. The Investment Management Service of the Fund stated that it would request the necessary resources in the budget for the 2006-2007 biennium.

817. **The Board notes that the Administration has proposed the creation of a post for the biennium 2006-2007, but regrets the delay in implementing the recommendation when the management of $29 billion in assets and of the retirement pensions of United Nations staff were at stake. The Board reiterates its recommendation, noting that it was initially made in connection with the audit reports for the biennium 2000-2001.**

V. Acknowledgement

818. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Secretary-General, the executive heads of United Nations funds and programmes and the Chief Executive Officer of the United Nations Joint Staff Pension Fund, their officers and staff.

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit
and Chairman, United Nations Board of Auditors

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France

1 July 2005

Note: The members of the Board of Auditors have signed only the original English version of the report of the Board.